



**Ph.D. program  
Management and  
Business  
Administration**

## **THESIS SUMMARY**

for

**Péter Kardos**

**The Effect of Beliefs in Free Market Ideology and Nationality of  
Companies on Justice Demands, Action Intentions and Emotions  
in Response to Corporate Transgressions**

Ph.D. thesis

**Supervisor:**

**Dr. László Zsolnai**  
Professor and Director

Budapest, 2012

**Business Ethics Center**

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## I. Aims and structure of the thesis

Building on the findings and methods of social psychology, in this thesis I investigate how belief in free market ideology and the nationality of transgressing companies affects public responses to corporate transgressions. The method that I have used is experimental. I show empirically that the uncontrolled free market cannot regulate itself and render unbiased justice through public oversight because the justice demands and action intentions of the public *are* often biased and that this bias is at least partially caused by belief in free market ideology. Biased justice demands do not lead to social justice and to social good.

The thesis is also the first to empirically investigate whether corporate transgressions can induce negative emotions among the citizens of the country that the company is associated with. In this sense we can talk about the moral cost of corporate transgression that the public pays in the form of guilt and anger.

Although the debate over free market ideology takes center stage in political as well as public discourse (especially since the financial crisis), little is known about what exactly the ideology entails and how it influences everyday decisions. Jost and his colleagues' works are essential (e.g., Jost, Blount, Pfeffer, & Hunyady, 2003; Thommson & Jost, 2000), as they treated belief in free market ideas as an ideology. I follow them in this respect. Building on their results I investigated how belief in free market ideology affects the public's demands for justice after corporate transgressions and by that the market's ability to render unbiased justice.

In the first part, I introduce the roots of free market theory, then its present form and how it operates as an ideology. First, I present Adam Smith's (1776) oft-cited views about the invisible hand that orchestrates individual self interests into social good. Smith indeed argued that individual freedom increases personal wealth, which in sum leads to overall societal wealth. The arguments of Smith and of the late followers of free market ideology differ, however, in their moral perspectives. Smith's ultimate goal was to increase national wealth, for which he favored the division of labor and the free pursuit of individual goals. His late followers, on the other side, take a different

route. Their ultimate goal is to increase private profit, which they justify morally by referring to Smith's ideas. Pursuing self interest, thus, has a different meaning in their argument.

Then, I write about the renewed popularity of free market ideas in the nineteen seventies. Milton Friedman advocated for the unregulated free market as a means to serve the society (1970, 1962). According to Friedman, governmental regulation of the market is harmful and companies' moral self-control is wrong. The unregulated free market built on the pursuit of individual self-interest is what benefits society.

It should be noted that the state controlled economy is not the opposite of the unregulated free market and therefore it is not its only alternative. If the unregulated free market economy means lack of responsibility, accountability and respect for others and the environment, then there is an alternative to this. This alternative is moral and practical, and is based on respecting others. The economy is an important system of the society. Therefore, the society's norms and principles, other than increasing profits, are also valid for the economy. Not only state regulation but civil engagement, enlightened education, and personal conscience may also help promote the success of this alternative.

One of the main forces that can regulate business corporations' exclusive profit orientation is the companies' socially responsible behavior. In this case, the system that regulates profit oriented market behavior is moral consideration and respect for the stakeholders, concerns which must be shared among the owners and managers of the company.

Goodpaster and Matthews's classic work was the first to emphasize that companies have a conscience and should behave accordingly (1982). While Friedman refuses this idea, according to the authors, the company is made up of and operated by responsible individuals, who, just like the company, are part of the society. Legal immunity does not mean moral exoneration. Not only do the public authorities prevent a company from doing whatever it takes to increase its profit, but also its reluctance to harm consumers, the natural environment and other stakeholders.

Friedman opposes such moral self-control. In principle, the neoliberal free-market theorists would not care much about whether the market is fair or not, because efficiency is the main concern. From a moral point of view, the market should be neutral. But I will show that the principles of the free market became elements of an ideology and that this ideology in turn guides decisions on and off the market. I will show that belief in the unregulated free markets is more of an ideological than a theoretical, technical issue. Therefore, I will treat and refer to the belief in free market as an ideology in my dissertation.

It is because of this ideological nature that moral values are associated with the market among proponents of the free market. This is why Stanford MBA students judged economically more successful companies to be more ethical as well (Jost et al., 2003). While advocates of the neoliberal free market often reject the moral responsibility of the companies, they nonetheless ascribe moral worth to values like efficiency and productivity.

This association exemplifies the ideological nature of belief in the free market. The belief is not only used to guide economic judgments, but proponents of the free-market also emphasize the markets' absolute role even in moral issues. As the argument goes, there is no need for moral self control because economic agents will enforce ethical standards on the behavior of companies *through* the market. If a company is unethical, consumers will turn away from the company, punishing it for not following social norms. From pure self-interest, following their profit goals motivates companies to become ethical (Rothbart, 1998).

But here comes the difficulty. If we assume that in business decision-makers should put moral consideration on hold and pursue only their self interest (and Friedman urges them to do so), then why do we expect the same members of the society to follow moral principles, even at their own expense, in order to punish companies for violating social norms? It is not realistic to assume that a consumer would purchase a more expensive product instead of buying a cheaper one from an unethical company, if the same considerations are disregarded in her business decisions.

The context and the situation do influence behavior and activate different norms to follow. But it is not realistic to make a sharp distinction for the entire society that says:

no morality, just profit in the business world and ethical behavior outside of business. It is more likely that a single belief system about human behavior and societal roles govern decisions in the business world and beyond.

In the next section I introduce the psychological justice literature; the reasons why people demand justice after norm violations (Darley & Pittman, 2003), and the possible reasons why the demand may be still missing (Bandura, 1999, Bandura, Caprara, & Zsolnai, 2000). I will show how threat to a person's worldview, self-image, or ideology can distort justice demands (Miron, Branscombe, & Biernat, 2010, Leidner, Castano, Zaiser, & Giner-Sorolla, 2010) and why it is relevant in the business environment as well.

The following section gives a brief outline of social identity and social categorization theories (Tajfel & Turner, 1979; Tajfel, 1981; Turner, Hogg, Oakes, Reicher, & Wetherell, 1987), and their possible application in the context of business ethics. I will show why belief in free market ideology can affect people's reaction to the unethical behavior of domestic companies.

Free market ideology proclaims universal freedom without regulation. However, its glorified self interest, along with other elements, predicts a bias toward the own, toward the domestic. For this I will refer to Smith (1759), Chomsky (2011) and present day American political discourse. If these biased motives are present even in moral judgments, then the justice rendered by the unregulated market may fall short of the moral optimum.

The themes of social identity and self-categorization raise another question. We know that belonging to and identifying with groups affects people's attitudes and emotional reactions. The psychological literature of group based emotions tries to answer the questions of why people feel guilty for their ancestors' deeds, why are they happy and proud when their team wins, and why they experience different emotions depending on which of their social identities is activated. Applying these findings to business ethics, the question is whether people feel (more) guilt for domestic companies' unethical behavior. Although the effect of guilt can be positive by motivating people to redress unethical behavior, we can also consider it as the social-emotional cost of unethical business behavior.

Research of group based emotions is built on the premise that belonging to groups is part of the personal self-image. If we think that a group that we belong to has done something wrong, it affects our individual behavior and emotions, and *we* feel guilty about it (Smith, 1993; Mackie, Silver, & Smith, 2004). People experience different emotions because of their group members' actions or the situations they endure (Mackie, Smith, & Ray, 2008, Smith, Seger, & Mackie, 2007).

A negative event that involves the group induces negative emotions, a positive event that involves the group induces positive emotions. People feel guilt for the violence committed by their fellow citizens. If the nationality of business companies matters, then corporate transgression committed by domestic companies can similarly induce guilt, shame, anger, remorse and other negative emotions. We can define the experiencing of these emotions as a cost. It is an external cost of the unethical corporate behavior that appears in the form of negative emotions and is paid by the society.

I have tested several hypotheses in my thesis. I have tested how the belief in the free market ideology influences the perception of unethical business behavior. The belief in the unregulated free market (free market ideology) is more than just an economic point of view on taxation or technical preference about the role of government. The belief that the unregulated market and its self-interest driven agents are for the benefit of the society is a world view, an ideology. This ideology may be threatened by information about unethical business behavior that causes damage to the society. Because defense is one possible response to this threat, I was curious how this threat shapes people's justice demands after corporate transgressions.

I have also hypothesized that, because of its inherent self biased motives, the belief in free market ideology will particularly distort the perception of unethical corporate behavior and subsequent justice demands if the offending company is from one's own country. While proponents of free market ideology usually demand universal freedom for the markets, freedom from any kind of intervention (especially governmental), the ideology's inherent selfish motives predict that its proponents will be more biased in their moral judgments when they are about domestic, rather than foreign, companies. Those will be more biased in their moral judgments toward the companies that are associated with their own country (with them), who refuse market regulations that

supposed to serve the society. Those who endorse selfish motives in the market, will let those same selfish motives guide their judgments outside the market.

If this is true, then the market and the consumers' judgments cannot alone ensure justice and push companies toward more ethical behavior. If moral judgments and the subsequent actions are biased, then the justice they enforce will be biased as well.

Building on the psychological literature of inter-group conflicts, I have also tested whether the transgressing company's nationality (i.e. domestic or foreign) will directly affect the public's justice demands and civil action intentions against the company in a biased way that favors the home company.

I have also tested the hypothesis that companies' nationality influences people's moral emotions in response to unethical corporate behavior. Corporations do not formally represent a particular country in the same way as institutions like democratically elected governments or armies. Corporations that are present internationally, and are called variously international, multinational or global companies, can hardly be associated (through legal ties, nationality of owners, or locations of operation) with a particular nation. Yet, people can be proud of well-performing "national" companies and feel guilty if they violate basic societal norms.

Building on the literature of group based emotions, I hypothesized that people would feel more negative emotions in the form of guilt, for example, when they learn about the unethical behavior of a domestic compared to a foreign company. This effect could be an emotional-moral cost in the form of guilt, shame, or anger that is caused by a company, but paid by the citizens of the country that the company is associated with.

I have also tested, whether the negative emotions felt by citizens because of a domestic company's unethical behavior on the international market lead to increased justice motives and action intentions to redress the company's behavior.

## II. Methods

The aim of this experiment was to empirically test my hypotheses, that is, to see how belief in free market ideology and the company's nationality affect the public's moral judgments, emotional reactions, and justice demands in response to corporate transgressions.

Participants were randomly assigned to one of two conditions and read a short fictitious newspaper article describing a big textile company accused of harmful business practices. Depending on the condition, the company's home country was either described as the United States (domestic) or China (foreign). The factories in question were said to be located in a third country, so as to avoid perceptions among participants that the company "harmed their own." To increase the range of unethical behavior investigated in this study and therefore generalizability of results, in both conditions participants were presented randomly with one of five different corporate transgressions (using child labor, running sweatshops, causing environmental damage, harming local suppliers, injuring employees by disregarding safety standards).

After reading the article, participants completed measures of their demands for justice in the form material compensation, punishment, as well as symbolic compensation; a measure of action intentions addressing their willingness to personally engage in activities like boycotting the company's products or join a group which organizes a protest against the company). Then I measured identification with the US, political affiliation, and belief in free market ideology (e.g. *The United States would benefit from deregulating the economy; People are better off with free trade than with tariffs*). Then they gave demographic information and were debriefed. The experiment was conducted on Qualtrics software.

The company's nationality was a categorical and the belief in the free market ideology a continuous independent variable. The type of the unethical behavior was a categorical and the political affiliation and level of national identification of participants were continuous control variables. Justice demands, action intentions and emotions were the dependent variables. I performed data analysis in SAS 9.2.

### III. Main findings of the thesis

According to free market ideology, public oversight – forcing transgressing companies to become more ethical through public opinion and civil action – is sufficient to regulate the market and make it serve the societal good. Thus, moral self-regulation on the part of companies' and institutional regulation are seen as unnecessary. If needed, the public will tell the companies when they go too far—so the argument goes.

My experiment showed that the public indeed responds to unethical corporate behavior, but it also showed that this reaction is not always as unbiased as free-market ideology would proclaim. Specifically, the belief in free market ideology led to the predicted bias. According to my third hypothesis, the interaction effect of the belief in free market ideology and the company's nationality significantly affected justice demands and action intentions. Those who believe more in free market ideology demanded less justice and were less willing to act against the unethical company if it was from the U.S. than if it was from China. Since the participants were Americans, this means ingroup bias. The participants who believed less in free market ideology did not show such bias.

Those who believe more in free market ideology, which promotes commitment to universal freedom and the neutrality of markets, also apparently cared more about the nationality of the company (whether domestic or foreign). While the deregulated laissez-faire economy is proclaimed to be universally valid, its believers distinguish more between *us* and *them*, display more bias in favor of the domestic over the foreign, and care less about *all* groups than do the proponents of a more regulated economy. This shows that free market ideology entails self interest and that the proclaimed universal freedom may often mean self-centered bias. Being biased in favor of ourselves is not a sin, but when the public's moral judgment is supposed to render societal justice, we should rely on unbiased justice motives. This is the reason why modern democratic societies prefer impartial and independent judiciaries over the people's judgment.

I did not find a direct relationship between the company's nationality and justice demands and action intentions in reaction to corporate transgressions. If a company is from our own group (nation), this does not itself distort justice demands and

willingness to engage in civil actions. The company's nationality did not even have a significant main effect on justice demands and civil action intentions when all control variables were left out of the analysis. In the context of inter-group conflicts, biased responses to ingroup transgressions have been regularly shown. Thus, in this respect the unethical behavior that happens in a business context differs from behavior committed in the context of inter-group conflicts.

The belief in free market ideology also did not have a significant main effect on justice demands and on civil actions against the company. Jost and colleagues previously found such relationship, showing that the belief in the fairness of the free market negatively predicted the severity of moral judgments after unethical business behavior (Jost et al., 2003). In my experiment, however, when I take into account the company's nationality, the direct effect of free market ideology on justice was no longer significant, only its interaction term with the company's nationality.

It is possible then that the previous findings (Jost et al., 2003) showed only the side effect of the company's nationality. In fact, the college students participating in Jost et al.'s experiments only judged American companies. In this study as well, when participants evaluated American companies, the belief in free market ideology correlated significantly and negatively with the justice demands.

Participants also felt more guilt and remorse because of the American than because of the Chinese company's unethical behavior. While it may sound obvious, this relationship has not previously been studied. The results show that companies' unethical behavior on the international stage comes with an external cost in the form of negative emotions, a cost which is paid by the citizens of the country that the company is associated with. They feel guilty and ashamed because of the company. However, this effect was due to the more negative emotions showed after the domestic company's behavior only by those who believe less in free market ideology. Those who believe more in free market ideology did not report experiencing different intensities of negative emotions; but they felt less anger, however, in the case of an American compared to Chinese company. Those believing less in free market ideology did not differ in the level of anger across the conditions. Thus, belief in free market ideology differentiates the emotional reactions to the unethical behavior of domestic companies.

The company's nationality and belief in free market ideology both influenced the level of guilt, which in turn predicted the strength of justice demands and action intentions in case of the domestic company.

### *Practical implications*

How can these findings inform management studies? The public, at least to the extent it believes in the free market ideology, perceives, judges and also responds differently to unethical business behavior depending on the company's nationality. The data shows that American free market ideologues were biased toward an American company compared to a Chinese one. This tells managers that the foreign markets and the foreign public may judge their companies' behavior and norm violations more rigorously than the domestic.

While in the company's home country the public may forgive that the company is running sweatshops in a third world country, others, outside of the homely atmosphere, will be more sensitive, apply harsher standards and penalize the company on the market (especially if the public clearly associates the company with a particular country). The foreign public is thus less forgiving, and globally operating companies cannot count everywhere on a favorable domestic bias.

For governments and legislators, the results tell that there is indeed a need for market regulation if the ultimate goal is social justice and social good. This regulation can be legislation, civil control, conscience or some combination of these. The main goal is to help the market orchestrate the consumer and managerial decisions into the social justice and good.

#### **IV. Conclusion**

Utilizing the methods and findings of the psychology on the field of business ethics and business administration proved to be fruitful in this thesis. I would like to continue this work in the future and apply the experience and knowledge of the psychological science of morality, social identity and group based emotions to address intriguing questions of business ethics and of business administration.

I have found that stronger believers of free market ideology were more biased toward the domestic unethical company in terms of justice demands and action intentions. Those who are less supportive of the unregulated free market did not show such bias. It is because of this bias that we can say that the free market itself is not enough of a regulatory power, at least not via the consumers reactions. The participants were American citizens (the consumers on the market) and the bias they showed in favor of the domestic unethical company was a function of their belief in free market ideology.

In addition, the domestic company's unethical behavior caused more guilt and remorse than the foreign – at least among those who less support the unregulated free market. In this sense we can talk about the emotional cost of the unethical corporate behavior that is caused by the company but paid by the citizens.

The results show that the public reaction to unethical corporate behavior is not the unbiased justice that the proponents of free market ideology advocate, claiming that it would eventually render unnecessary governmental and other kinds of market regulations. The public, at least partially to the extent it believes in free market ideology, is biased in its justice demands and action intentions towards companies that are perceived to be domestic as opposed to those that are foreign. Since the support of the unregulated free market causes the bias, it cannot effectively contribute to the ethical self regulation of the market. If the ultimate goal is to benefit the society and to make it more just, then it requires unbiased justice.

There is no invisible hand that organizes the selfish individual motives into the societal good (Stiglitz, 2010; Soros, 1998; Zsolnai & Gasparski, 2002). If we want a just society, we have to accept that the market alone cannot guarantee it. The sum of the individual market decisions can be coordinated to benefit the society by wise

governmental regulation or the actors' responsible and conscientious behavior. To renounce such help and rely only on the market to achieve the social good often seems to be a disguise for selfish interests.

Increasing profits is welcomed, but it does not justify disrespecting others. According to free market ideology the market's self-regulating mechanism includes the consumers' moral control over the companies. Evading and disregarding our own moral considerations while expecting others to use them in order to help the society is not fair. Those who conceptualize morality to be part of the market's self-regulating mechanism should apply it to themselves as well. If there is one place where there should be no free riding, it is in business.

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## **VI. Author's own publications in the topic**

Kardos, P., Leidner, B., Zsolnai, L., & Castano, E. (*Submitted*). The Effects of Free Market Ideology on Justice Demands and Action Intention in the Context of Corporate Transgression.

Kardos, P., Leidner, B., Zsolnai, L., & Castano, E. (2012, January). Can the Free Market Regulate Itself? Effects of National Identity and Fiscal Conservatism on Justice Demands and Action Intention in the Context of Corporate Transgressions. *Poster presented at the 13th Annual Meeting of the Society for Personality and Social Psychology, San Diego, LA.*