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## **Moral isomorphism: When unethical behavior does not necessarily imply lower level of moral development**

**WORKING PAPER 0903**

**Michael Gonin**

# **Moral isomorphism – when unethical behavior does not necessarily imply lower level of moral development.**

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## **1 Introduction**

In 1986, Boesky claimed in the commencement address at University of Berkeley that "Greed is all right" (Martz, 1986); a few months later, this individual was condemned for massive fraud, and questions aroused about a system leaving way for greedy individuals (e.g., Martz, 1986). Despite stronger regulation, the neo-liberal economic system could however not prevent Enron's, Arthur Andersen's, or WorldCom's collapse in 2002. Far from being eradicated from the market, greed, which was found at individual level in the Boesky scandal, seems to have reached organizational structures, as most employees at Enron let the market as sole judge regarding ethics and morality (Levine, 2005; see also Osterloh & Frey, 2004). Authors again raised concerns about a overly radical application of the neo-liberal market economy and its underlying self-interest concept (e.g., Frohnen & Clarke, 2002; Krugman, 2002). However, a preliminary analysis of the 2008 financial crisis lets different authors think that despite post-Enron regulations such as the Sarbane-Oxley Act, greed gained the status of normative standard for the whole mortgage, if not the whole banking industry (e.g., Lewis & Einhorn, 2009; Fell, 2008).

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The recent crisis revived the discussion, inside and outside the business world, about the legitimacy of a business system built around a too narrow self-interest orientation. Legitimacy represents the moral acceptance of an organization and its activities by the broader society, in response to the organization respecting the norms, aims, and values of that society (Oliver, 1991; see also Ashforth & Gibbs, 1990). It is essential for the pursuit of an activity as it can be considered as the 'license to operate' (Valor, 2005), that is, the condition to conduct business within a certain community. It is this 'license to operate' which some societal actors want to redefine more precisely in order to weaken the greed component in it and condition it to heavier social and environmental regulations.

As legitimacy is essential for the long-term survival of the business system, it is necessary to understand the reasons which led to this withdrawal call. As mentioned above, legitimacy is related to the actor's abiding to the norms and values prevailing in a certain community. On the contrary, a legitimacy crisis refers to a salient gap between one's attitude or actions and the expectations of the broader community. Understanding the current business legitimacy crisis implies hence understanding where and why exactly this gap emerged, and how it can be filled.

A weakened moral capacity of some key business leaders is often given as explanation for the moral deviance of the business world. The strong egocentric profit-maximizing discourse of many businesses (see above) might indeed let us think that the business leaders' level of moral reasoning has dropped to reach a pre-conventional level of moral development. According to Kohlberg (1969), *pre-conventional moral thinking* represents the lower level of moral thinking and is characterized by a concern for norms and rules which aims merely punishment avoidance. As we will show, it can be related to Suchman's concept of *pragmatic legitimacy* - which is based on "self-interested calculations" (1995: 578).

Kohlberg identified two higher levels of moral development which can be related to the other two types of legitimacy identified by Suchman. At the higher end of Kohlberg's scale of moral development, *post-conventional* moral thinking is characterized by the ability to take critical distance from the prevailing norms and question them if they contradict some universal standards. Postconventional actors show an intrinsic motivation to follow higher, universal moral standards and benefit hence from what Suchman calls *moral legitimacy*, that is, a legitimacy based on the actor's 'right' motivation for his/her actions. Finally, actors at the middle level of moral development – *conventional moral thinking* – understand the social necessity of common norms and hence abide to the surrounding norms without really questioning them. Their often implicit abiding to contextual norms leads usually to what Suchman calls *cognitive legitimacy*, that is, a legitimacy granted on the fact that the actor's attitude blends into the surrounding norms and no 'deviant' behavior catches the attention from the broader community.

Relying on institutional theory (DiMaggio, 1988; Meyer & Rowan, 1977; Zucker, 1987), we propose to call this last type – the implicit adoption of surrounding norms – *moral isomorphism*. Moral isomorphism can be considered as a specific case of the isomorphism process found in institutional theory (DiMaggio & Powell, 1983; Marquis, Glynn, & Davis, 2007). According to institutional theory, institutions are defined as "shared definitions or meanings" (Tolbert & Zucker, 1996: 180), which unconsciously guide the way organizations and individuals within organizations perceive their environment, their role, the salience of issues and the persuasiveness of solutions. Isomorphism refers to the tendency of actors to adopt the norms promoted by a given institution in order to align with their peers. This copying process tends to provoke a spiraling effect. It strengthens the institution's shared meanings as more actors adopt them in order to secure their own legitimacy – and the more actors adopt a norm, the more other actors feel forced to follow it, too, in order to fit into the

group and hence gain cognitive legitimacy – a legitimacy based on their alignment with the surrounding norms and values. We propose to define moral isomorphism as the copying processes of actors specifically regarding moral or ethical issues. We suggest that such behavior is typical of actors showing a conventional level of moral development according to Kohlberg and usually leads to cognitive legitimacy within a specific institution.

The institution's role in defining how to interpret an issue and its legitimacy can be illustrated with the concept of self-interest in business. A business institution granting much importance to societal values will lead most of its organizations to soften the interpretation and application of self-interest and also show more social reasoning – if an organization applies 'self-interest' in overly literal manner, it might see its legitimacy challenged. On the contrary, a business institution promoting self-interest and profit-maximization at all costs might encourage and legitimize organizations showing a radical application of self-interest and considering for instance corporate social responsibility merely as a strategic tool.

Institutional theory and the related concept of moral isomorphism imply that actors can behave in strongly self-oriented or greedy way without necessarily being morally 'bad persons' in the sense that they would be 'pre-conventional actors'. Moreover, people can act in apparently strongly self-oriented or greedy way without necessarily seeing their legitimacy questioned. Their greedy attitude can indeed merely reflect a moral isomorphism process specific to conventional actors and usually leading to cognitive legitimacy. In consequence, moral isomorphism suggests that the solutions to widespread unethical behavior might not necessarily lie in increasing individual moral reasoning (the latter has not always decreased). Rather, it might be more effective to change the behavioral norm which promotes this behavior and seems to be adopted by the large majority of conventional economic actors.

In this article, we argue that the increasing greed and self-interest observed in business does probably not lie in a drop of the leader's level of moral thinking – contrary to what is

often asserted. Rather, we will show that most business actors still show – as in the past – a conventional level of moral development, and hence follow, often in unreflected manner, the behavioral norms and standards surrounding them. Those standards have however changed over time. We argue that institutional changes occurring both within and outside the business world eventually changed the identity orientation from a more relational or collective one into a strongly individualistic one. According to Brickson (2007), (organizational) identity orientation refers to the way an organization understands itself and its relationships to other actors. Organizations with an *individualistic identity orientation* will focus on their own interests. Those with *relational identity orientation* will also take into consideration the interests and norms of the partners with which they interact. Finally, *collectively oriented organizations* mainly focus on the interest and norms of all actors in the community in which they are embedded, regardless of whether they have a direct relation with them or not.

As we will show, globalization (fall of time-distance boundaries and the inherent possibility for persons, goods, information, but also pollution, to travel at fast speeds around the world), pluralization (increasing number of cultures sharing a common territory), and specialization (legitimate existence of subsystems having their own aims and methodologies) have allowed for the emergence of a specific 'business institution' – that is, a set of norms and worldview prevailing in the business world. The latter currently promotes a strong individualistic identity orientation. As widespread scandals occurred recently, the broader society questions the legitimacy of this overly egocentric orientation and calls for corrections.

We will first develop, from an institutional theory perspective, the links between Suchman's concepts of legitimacy, Kohlberg's model of moral development, and Brickson's organizational identity orientation theory. In a second part, we will discuss how changes both in the business institution and in the broader societal context, in particular globalization, pluralization, and specialization, led to a change in the identity orientation promoted in the

business world. We will also show how this change impacted the legitimacy of business actors in the broader society. Finally, we will draw some conclusions from this model regarding possible solutions to the current legitimacy crisis.

## 2 The concept of Legitimacy

This section begins with a discussion of the legitimacy concept. The latter will then be related to the theory of moral development (Kohlberg, 1969) and Brickson's (2007) concept of identity orientation. The new model which will emerge will then be used in order to analyze some changes in the past decades which led to today's crisis in business and to discuss some solutions to this crisis.

Legitimacy refers to the moral acceptance of an organization and its activities by the broader society, in response to the organization respecting the norms, aims, and values of that society (Oliver, 1991; see also Ashforth & Gibbs, 1990; Suchman, 1995). Organizations are hence not legitimized *a priori*; their legitimacy and right to operate in a specific context depend on the compatibility of their aims and norms with those of the broader society (Kurlantzick, 2004; Lasn, 2000; Mokhiber, 1998; Scherer, Palazzo, & Baumann, 2006). There are "certain conditions for them to respect, certain criteria to be fulfilled and certain obligations to be met" (Moon, Crane, & Matten, 2005: 448). Corporations are for instance expected to "take responsibility" for their actions and their side effects (Painter-Morland, 2006: 89), and to ensure that their actions do not threaten the aims, values and norms of the broader society (Ansoff, 1979; Freeman, Wicks, & Parmar, 2004; Post, Preston, & Sachs, 2002; Valor, 2005).

If an organization clearly departs from the aims and values of the broader society, it risks to see its legitimacy withdrawn, or as Valor (2005) puts it, lose its *license to act*. It might be asked to stop its activities within a specific community, or even be dismantled (Suchman, 1995). Even though the dismantling of corporations for unlawful behavior is foreseen in

different countries such as Germany (art. 396 of 'Aktiengesetz') or the United States (see Mokhiber, 1998), this possibility has however almost never been used. Even when Unocal persisted in contributing to Human Rights violations in Burma and some lawyers and activists petitioned the general attorney to 'de-charter' this corporation, the attorney general refused to even start the necessary legal procedure (Kurlantzick, 2004; Mokhiber, 1998).

Suchman (1995) identified three main types of legitimacy: pragmatic, moral, and cognitive legitimacy. *Pragmatic legitimacy* refers to "self-interested calculations" (1995: 578) and an (implicit) deal between the protagonists. For example, Friedman (2002 [1970]) legitimized the great autonomy of the business system from the broader society and its neglect of social responsibilities through an expected 'increased welfare for all'. The business world is allowed to develop its own set of values and practices, which might differ from those of the broader society, as long as the broader society benefits from the business system's outcome more than the cost related to the business' specific worldview.

*Moral legitimacy* qualifies the support of an organization by the broader community as result of an explicit positive evaluation of the corporation's contribution to "societal welfare, as defined by the audience's socially constructed value system" (Suchman, 1995: 579). Moral organizations focus on the issue of whether a decision or behavior is 'the right thing to do', rather than trying to 'bargain' (as in the pragmatic legitimacy) for some moral freedom in exchange for some profit for the broader society.

Finally, *cognitive legitimacy* refers to legitimacy granted either because the actor fits into some "cultural models that furnish plausible explanations for the organization and its endeavors" (Suchman, 1995: 582), or because the firm morally blends into the norms prevailing in its context. For these reasons, cognitive legitimacy strongly depends on the models which prevail in the broader society and justify or condemn specific actions, attitudes, or values. Contrary to pragmatic and moral legitimacy which both rest on some explicit

evaluation, cognitive legitimacy is more subtle and can rely on implicit or taken-for-granted principles.

These three types of legitimacy can be related to the three types of moral reasoning identified by Kohlberg (1969) as well as to Brickson's (2007) three types of identity orientations (individualistic, relational, collective). In the next section, I propose to develop three types of actors based on their level of moral development, types of legitimacy, and identity orientation.

### **3 Legitimacy and moral development**

#### **3.1 The Stable Moralities: Preconventional and Postconventional**

Suchman's three types of legitimacy can each be related to a specific level of moral reasoning as classified by Kohlberg (1969): preconventional, conventional, or postconventional. Even though Kohlberg's model cannot be transposed to organizations without some adaptations – an organization cannot not *possess* moral reasoning (Reidenbach & Robin, 1991; Snell, 2000; see however Logsdon et al., 1997) –, it can be assumed that an organization shows some habits, patterns, as well as formal and informal rules and values (Schein, 1989). These norms imply a specific understanding of the relationship with the different economic or non-economic actors, and orientate the members' concrete decisions and actions toward one of Kohlberg's moral levels. Sims and Brinkmann (2003) for instance discuss how Enron's organizational culture influenced the employees' moral attitude and behavior. In this paper, the expression 'organizational moral level' refers therefore not to some concrete and measurable action of the *organization itself*, but rather to the organizational moral habits and values influencing the *members'* ways of reasoning and acting.

In the coming paragraphs, I will first discuss the 'stable' types (that is, those showing a stable identity orientation), before discussing the case of conventional-cognitive actors showing what can be called a chameleon identity orientation.

### 3.1.1 The postconventional-moral

Postconventional morality represents the highest level of moral development (Kohlberg, 1969). Actors with such morality show an intrinsic motivation to follow "enduring moral principles, such as justice, human rights, and the dignity of human beings" (Logsdon et al., 1997: 1215). They are ready to question standards prevailing in their environment and go beyond them if they think the norms are not good enough, simply because there are "*moral* [...] reasons to do so" (Corvino, 2006: 9; see also Bright, 2006; Donaldson & Preston, 1995).

Such an approach to morality and social norms can easily be related to Suchman's moral legitimacy as well as to Brickson's (2007) *collective identity orientation*. Firms having a *collective identity orientation* see themselves as one of many actors in society, or as 'corporate citizens'. Corporate Citizenship (CC) implies that the corporation does not represent the *center of*, but remains *one of many actors* in the vast network of societal actors (Logsdon & Wood, 2002; Maak, 2007; Moon et al., 2005; Scherer & Palazzo, 2007; Wood & Logsdon, 2001). As such, collectively oriented firms not only respect general principles decided upon by socially recognized institutions, but also take responsibility *for* the norms and their enhancement. They actively participate in the broader societal life, and "rather than manipulating and persuading opponents the challenge is to convince others by reasonable arguments" (Palazzo & Scherer, 2006: 73). Furthermore, their own vision and strategy explicitly integrate elements concerning societal welfare and anticipate tomorrow's societal problems (Buchholz & Rosenthal, 2005). Such active involvement in the enhancement of the broader society is what Carroll considers *moral* behavior (1987; see also Rawls, 2005; Ulrich, 2001). (Extreme) illustrations of such identity orientation are community enterprises (Peredo

& Chrisman, 2006; Gold, 2004) or social enterprises, whose primary objective is to solve a problem encountered by the surrounding community (Waddock & Post, 1991); profitability is in such case seen merely as a (necessary) means for reaching the social objective. Examples can also be found among more traditional business such as the McCulloch Corp. which tried to convince the Chain Saw Manufacturers Association to introduce higher security standards, and then decided to quit the association as the latter refused to make the enhanced security system a mandatory standard (Carroll, 1987). Another example would be Chiquita which decided to reveal its payments to Columbian rebel groups, even though all other companies working in the area supposedly also funded those groups in exchange for 'security' but refused to be transparent (Brodzinsky, 2007).

In summary, the following propositions can be formulated for postconventional actors:

*Proposition 1a: Postconventional morality implies behaviors which are related to moral legitimacy.*

*Proposition 1b: Actors with postconventional moral reasoning will mainly show a collective identity orientation, independently of the context.*

### **3.1.2 The preconventional-pragmatic**

At the lower end of moral development, preconventional moral thinking considers norm abiding merely as a way to avoid punishment. Such reasoning is clearly in line with the pragmatic legitimacy logic, which is based on "self-interested calculations" (Suchman, 1995: 578). Preconventional corporations strategically 'trade' their economic contribution to the social welfare in exchange of the freedom to follow their own values and goals (Ashforth et al., 1990; Palazzo et al., 2006; Suchman, 1995). Their respect of the civic norms is minimal and aims only at keeping their 'license to operate' (Valor, 2005) and pursuing their own objective(s). The latter is often merely economic, i.e., profit maximization (Logsdon et al.,

1997). The consequence of this reasoning is a strong tendency to ignore the expectations of the broader society that go beyond this narrow scope of economic interests.

Preconventional reasoning is therefore typical of Brickson's (2007) *individualistic identity orientation*. Actors with an *individualistic identity orientation* consider their environment and its civic virtues as relevant only inasmuch as the latter impact (positively or negatively) their own utility-maximization objective (Crook, 2005; Friedman, 2002 [1970]; Jensen, 2002; Sundaram & Inkpen, 2004). In such a view, concepts developed nowadays in business ethics such as Corporate Citizenship are considered as mere tools for increasing profit, to be abandoned if no longer profitable (Jones, 1995; McWilliams, Siegel, & Wright, 2006; Porter & Kramer, 2006; see also the concepts of greenwashing in Kärnä, Juslin, Ahonen, & Hansen, 2001; and bluewashing in Kell, 2005; see critically Scherer et al., 2007). Stakeholders – broadly defined as all persons or groups of persons having a stake in the corporation's activities (Donaldson et al., 1995; Freeman & Reed, 1983) – are ignored as long as they do not represent a concrete source of profit or loss for the corporation. For example, in the famous Ford Pinto case, General Motors first ignored the safety expectations of the customers (as stakeholders), and calculated that giving money to injured people would be less expensive than modifying the car in order to avoid future accidents (Reidenbach et al., 1991).

Such egocentric reasoning as behavioral norm specific to the business world corresponds to Carroll's *intentional a-morality*, according to which managers "simply think that different rules of the game apply in business than in other realms of life" (Carroll, 1987: 11; see Friedman, 2002 [1970]; Jensen, 2002). Rather than focusing on the spirit of the law, individualistic firms aim mainly at reducing the economic risks inherent to legal issues (see Carroll, 1987; Comte-Sponville, 2004). In the extreme case, intentional a-morality reduces the decision to abide by the law (or not to abide) to a mere calculation: Do the benefits of rule breaking exceed the costs linked to breaking the law? Such extreme reasoning opens the doors

for systematic *immoral behavior*, as it has been observed in the Enron case (Kulik, 2005; Levine, 2005; Sims et al., 2003).

The following propositions summarize the characteristics of preconventional actors:

*Proposition 2a: Preconventional actors follow merely a pragmatic legitimacy strategy.*

*Proposition 2b: Actors with preconventional moral reasoning will mainly show an individualistic identity orientation, independently of the context.*

### **3.2 'Chameleon Identity Orientation': The Moral Isomorphism of Conventional Actors**

*Preconventional-pragmatic actors* have been defined as focusing on self-interest and neglecting the norms and expectations of the broader society as long as they do not affect (positively or negatively) their own welfare; these characteristics are strongly related to the ones of the individualistic identity orientation. Similarly, *postconventional-moral actors*, focusing on an intrinsic motivation to search for the good of the broader society, will most often show an understanding of citizenship typically attributed to the collective identity orientation. Both groups therefore show a clear identity orientation which does not depend on their context. Whereas moral legitimacy and postconventional moral thinking refer to higher, universal standards regardless of those usually prevailing in a specific community, preconventional moral thinking and pragmatic legitimacy focuses on self-interested calculations – moral behavior aims merely at avoiding punishment, and legitimacy is granted merely with the hope that the positive outcome will outweigh the costs, regardless of any value fit / conflict between both parties.

In summary, both pre- and postconventional actors try to anticipate tomorrow's norms in order either to develop a strategy allowing for maximal returns (preconventional), or to influence these norms for the good of society (postconventional).

### **3.2.1 Conventional Morality and Institutional Theory**

Contrary to pre- and postconventional actors who try to anticipate institutional norms, conventional actors show a rather reactive attitude towards norms, and (more or less unconsciously) adapt to them. They understand the importance of norms and standards. Nevertheless, rather than explicitly defining the norms they desire to endorse, they merely adopt the norms which seem to be prevalent in their environment (Kohlberg, 1969; Logsdon et al., 1997; Snell, 2000; Trevino, 1986).

This copying process of the norms prevalent in a given environment represents a strategy well known in business research and conceptualized in institutional theory as 'isomorphism'. Isomorphism refers to the actors' preference to follow a seemingly successful strategy developed by peers rather than taking the risk of developing a new strategy of which the success cannot be guaranteed (DiMaggio et al., 1983). As many actors adopt a specific norm, an institution emerge. An institution can be considered as a set of "rules, norms, and beliefs that describe reality for the organization, explaining what is and what is not, what can be acted upon and what cannot." (Hoffman, 1999: 351). Over time, such institutions often tend to be taken-for-granted (Zucker, 1987). This taken-for-grantedness strengthens the isomorphism process, as more actors adapt to the standard without questioning it. Isomorphism explains for example why, "even in businesses populated by MBAs from top-ranked universities, there is [...] persistent use of practices known to be largely ineffective" (Rousseau, 2006: 285). Fortunately, institutions are not rigid entities. For example, the definition of 'woman's consent' in rape trials has evolved in recent decades, leading to higher protection of women (Wildavsky, 1993), and the boundary between public and private good has evolved through

public debate and official publications, changing the delineation of government's role (Barber, 2000; Jones, 1999).

Isomorphism takes also place regarding ethical or moral issues. Marquis, Glynn, and Davis (2007) have for instance shown how the community environment, including the practice of other actors, influences the way a corporation perceives its social role in the community. Venard and Hanafi (2008) also relate isomorphism to moral practices by studying corruption in financial institutions. Finally, McCabe's study of business students, which show the business students' tendency to justify their (above-average) cheating by pointing to the fact that 'the others students cheat, too' also highlights isomorphism mechanisms (McCabe, Butterfield, & Trevino, 2006). We propose hence to coin the term 'moral isomorphism' to refer to those copying processes which concern moral or ethical issues.

Finally, both isomorphism in general and moral isomorphism increase legitimacy (Aldrich & Fiol, 1994; Ashforth et al., 1990; DiMaggio et al., 1983; Lieberman & Asaba, 2006), as they allow actors to blend into a common set of practices and therefore avoid too much scrutiny from the broader society. Isomorphism especially increases cognitive legitimacy, as the latter is based on the alignment of the actors' norms on those prevailing in a specific context. As it is based on the broader society's core values, cognitive legitimacy represents the strongest form of legitimacy; it however lasts only as long as these often unspoken core values remain unchallenged (Suchman, 1995). However, once the taken-for-granted legitimacy of these norms is challenged, cognitive legitimacy becomes threatened, as it most often lacks explicit arguments (Palazzo et al., 2006).

We can now formulate proposition 3a:

*Proposition 3a: As they tend to 'blend' into the prevailing norms, conventional actors most often show a cognitive approach of legitimacy.*

### 3.2.2 The Identity Orientation of Conventional Actors

Conventional morality characterized by moral isomorphism has often been linked to elements which can be found in Brickson's (2007) *relational identity orientation* (see e.g., Graham, 1995; Snell, 2000; Trevino, 1992). In this section, I first present the relational identity orientation, and then argue that the identity orientation of conventional actors is not as clear as often suggested. Rather, moral isomorphism suggests that conventional actors do not always adopt a relational identity orientation, but rather follow the identity orientation considered as standard in their environment.

Actors with a *relational identity orientation* focus on the norms inherent to the relations they have with their different partners. Corporations with such an orientation recognize that they are part of a network and that they directly or indirectly impact different stakeholders, i.e. persons or groups having a stake in the corporation's activities (Freeman et al., 1983; Freeman, 1994; Freeman et al., 2004). These stakeholders can be more or less broadly defined even among corporations with relational identity orientation. Some corporations will consider only very few stakeholders as relevant – such corporations would be close to individualistic identity orientation. Others, showing almost a collective identity orientation, will interact with most groups having some interest in the corporation, regardless of their own interests in the different stakeholders (Donaldson et al., 1995). These interactions will bring into light specific social, environmental, political, and economic responsibilities which corporations with relational identity orientation are ready to endorse as they become aware of them (Donaldson et al., 1995; Maak & Pless, 2006; Palazzo et al., 2006)

Actors with relational identity orientation are often *unintentional a-moral*. According to Carroll, *unintentional a-moral managers* are "basically good people" (1987: 13), but might lack tools or criteria to recognize and anticipate ethical issues which they do not directly face in their relation with their stakeholders. They do not explicitly exclude ethical thinking from

business activities, but are rather "simply morally casual, careless or inattentive to the fact that their decisions and actions may have negative or deleterious effects on others" (1987: 11). It can however be assumed that once an ethical issue arises in the relation with one of the stakeholders, unintentional a-moral managers will start explicitly dealing with this issue. Such unintentional a-morality has been shown by Dana, Weber, and Kuang's experiment (2006) in which individuals, when offered the possibility, prefer not to know of the ethical consequences of a decision they have to take, so that they can choose 'freely'. However, as they become aware of the consequences, they tend to act in rather ethical ways.

Contrary to most articles systematically linking conventional morality to *relational identity orientation* (e.g., Snell, 2000; Trevino, 1992), we suggest that conventional actors are 'chameleons'. They show a relational identity orientation only as long as such orientation represents the prevailing norm in their environment (see also Dunfee & Fort, 2003). Moral isomorphism suggests indeed that if an individualistic identity orientation or a collective identity orientation becomes the norm in a specific context, it can be expected that conventional actors will tend to adapt their identity orientation in order to blend into the new framework. Hence:

*Proposition 3b: Conventional actors will adapt their identity orientation to what they perceive as the legitimate standard prevailing in their environment.*

### **3.2.3 The Volatility of Conventional Actors**

Proposition 3b implies that all three identity orientations can be adopted by conventional actors. As conventional morality varies depending on the context, any set of values gaining acceptance in a specific context can become a standard followed by most actors. Welzer (2005) discusses an extreme case of such context change and isomorphism process. He

presents how the broader Nazi ideology gave a "positive" meaning to violence, crimes, and hatred against Jewish citizens by simply providing a new standard institution. This institution discussed the so-called "Jewish question" and theorized about the Jews' responsibility for many problems in Germany, and legitimized an attitude of hate against the Jews. This new standard was adopted by the many Germans with conventional morality. These conventional actors however changed their understanding of the "Jewish question" as the taken-for-grantedness of this norm became challenged by the allied invasion. Similarly, as any one of the identity orientations becomes dominant in the business world, it can be expected that conventional actors will start considering this identity orientation as the – legitimate – standard to be adopted. Thus:

*Proposition 4a: If they become a widely acknowledged standard, identity orientations and behaviors typically attributed to both preconventional and postconventional moralities can also be adopted by actors with conventional moral thinking and a cognitive approach of legitimacy.*

Of course, most firms are not *either* perfectly conventional, *or* postconventional, *or* preconventional. Rather, most actors can show mixed behavior and act, in specific situations, according to a lower or perhaps higher level of morality than usual (Kohlberg, 1969; Weber, 1990; see also Nisan, 1991). Furthermore, some conventional firms might be close to postconventional thinking – and would quickly internalize new elements related to moral legitimacy as those start to become standards around them. Symmetrically, other conventional firms are close to preconventional reasoning and will need more time to internalize postconventional elements.

*Proposition 4b: Conventional actors with a tendency to preconventional morality will more quickly adopt preconventional standards (and less*

*quickly postconventional standards), whereas conventional actors with a tendency to postconventional morality will more quickly adopt postconventional standards (and less quickly preconventional standards).*

The fact that conventional actors might adopt any attitude and behavior they consider as standard in their environment can lead to a misattribution of their level of moral thinking. Indeed, if an attitude typically attributed either to preconventional or postconventional actors (such as an individualistic or a collective identity orientation) becomes the standards in a specific situation, it can be expected that many conventional actors will adopt it. This does however not imply that the conventional actors have changed their level of moral thinking. The adoption of the standard does indeed not result from a change in moral reasoning, but from moral isomorphism. In consequence, as an individualistic identity orientation becomes standard, both the conventional and the preconventional will show the same behavior, but not for the same reasons. Conventional actors will justify their attitude by referring to the standard concept ("everybody does it", "that's the way things are done here"), whereas preconventional actors will provide self-centered reasons which are unrelated to the norms prevailing around them (e.g., "as long as I get what I want"). Symmetrically, if a collective identity orientation becomes standard, both the conventional and the postconventional will show the same behavior, but conventional actors will justify their attitude by referring to the standard concept, whereas postconventional actors will provide a universal argumentation unrelated to the norms prevailing around them (e.g., "I believe it is moral to do so").

Finally, isomorphism implies that even if conventional actors adopt behaviors typically attributed to pre- or postconventional moral thinking, it can be expected that they will change their identity orientation again if the standard evolves around them – contrary to pre- or postconventional actors. Hence Proposition 4c:

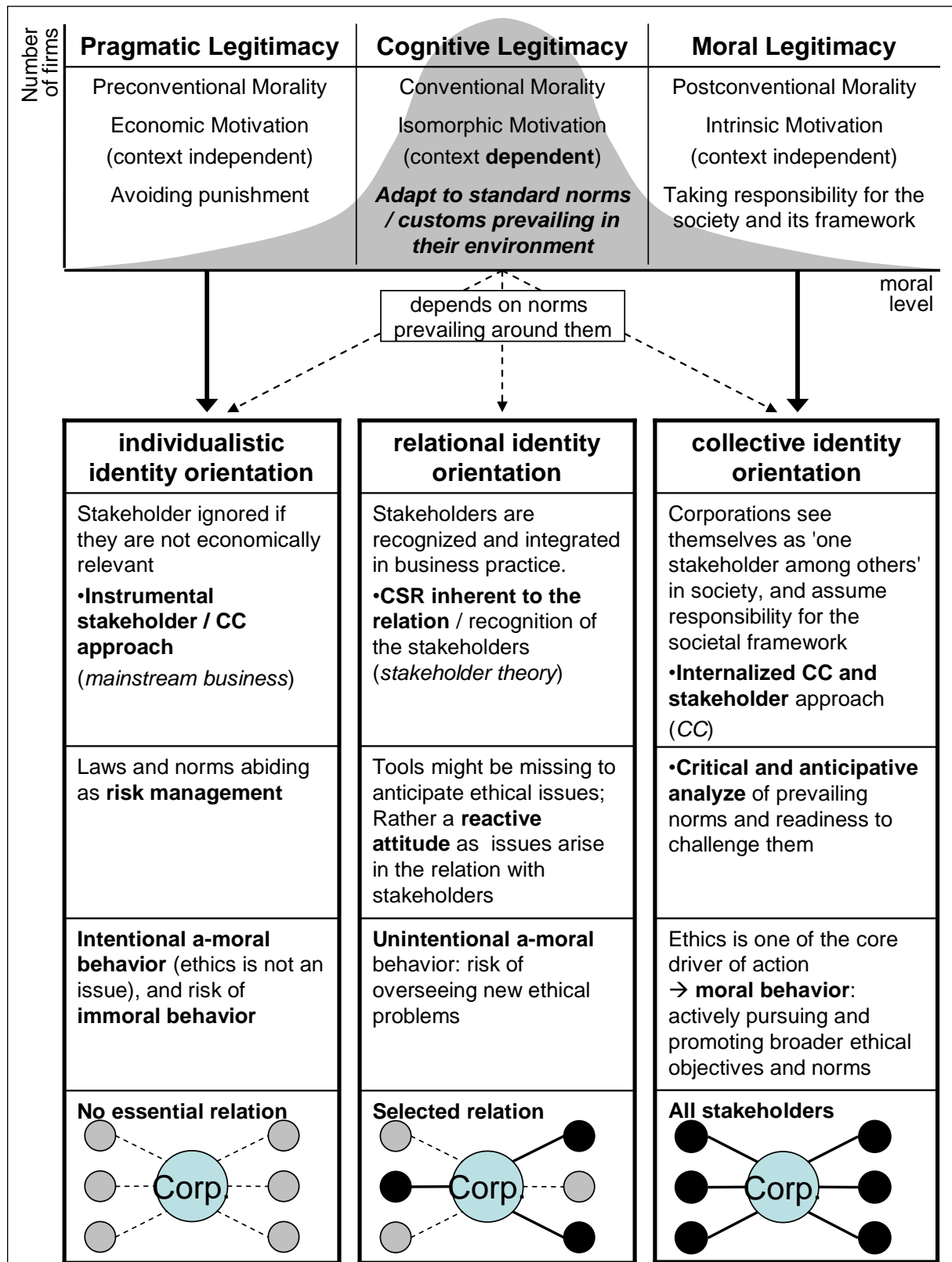
*Proposition 4c: Even though conventional actors can show a individualistic or collective identity orientation if the latter becomes a standard, they will keep it only for as long as it is considered as a standard, and change it again if a new standard emerges in their environment.*

In summary, the identity orientation of an organization and hence its relation to stakeholders' expectations depend not only on its morality level, but also on the surrounding prevalent standards. Whereas it can be expected that preconventional firms will more systematically show an egocentric interpretation of their environment, and postconventional firms more collective and civically responsible approaches, conventional firms can show all three types of identity orientation – individualistic, relational, collective – depending both on their own tendency toward either preconventional or postconventional morality, and on the norms prevailing in their environment (see Figure 1).

As we will show in the next part, some changes in the broader societal environment and in the business system have influenced the identity orientation of most conventional business actors, which moved from a rather relational or collective identity orientation toward a more individualistic identity, without necessarily having changed their level of morality. This change of standard has however led to a gap between the norms prevailing within the business institution and those of the broader society. As recent scandals within the business world have made this gap more salient, the cognitive legitimacy of the business institution and its overly self-interested worldview has been challenged.

**FIGURE 1**

**Links between legitimacy types and moral development and identity orientation**



## 4 The emancipated business institution

### 4.1 The emancipation factors

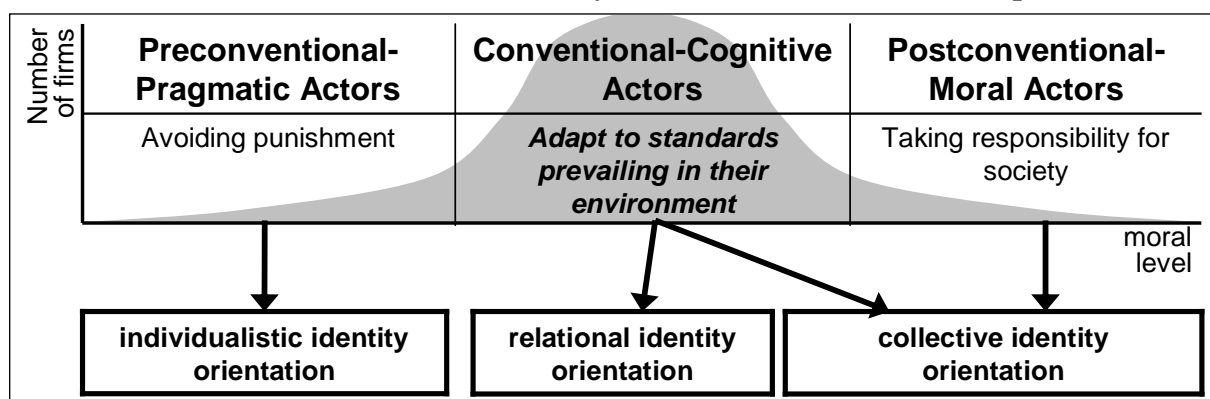
We have argued so far that most business actors are morally conventional and define their identity orientation through moral isomorphism. They follow the norms prevailing in their environment and their legitimacy depends on their blending into the normative context – this type of legitimacy is called cognitive legitimacy. The latter can however be thorn apart if specific events bring into light an important discrepancy between the broader society's expectations and one's action or attitude. In this section, we discuss some evolutions – both within and outside the business institution – which impacted the business' relation to the broader society. We argue that globalization, pluralization, and specialization have allowed for the development of an emancipated business institution with specific behavioral norms which divert from those of the broader society. A value gap exists hence which is not without consequences for the legitimacy of business in the eyes of the broader society.

In the past, a broader societal framework integrated all areas of life into a overarching value framework. Business activities were hence also linked to (local) socio-political life. The Medici family for instance embedded its business activities into the cultural and political medieval Florence (Cleugh, 1975; Merton, 1973 [1942]). Later, Weber (2000 [1906]) recounted that it was important for early 20<sup>th</sup> century American businessmen that their clients be part of a church, as church membership was a sign of the clients' trustworthiness. Of course, there always were some pre-conventional actors following merely their own interest, but their attitudes was morally condemned by the broader society. There also were some post-conventional actors ready to question their normative context. Nevertheless, the large majority of economic actors were strongly embedded into their social context and integrated the then taken-for-granted holistic worldview of business. The holistic approach implied a strong interconnection of business activities with other activities and actors of the broader

society. This embedded understanding of business can be related to relational or in extreme case to collective identity orientation. It also guaranteed a cognitive legitimacy of their business activities (Figure 2), as business activities were blended into a broader value framework and worldview.

FIGURE 2

**Conventional actors and standard identity orientation in the (idealized) past situation**



During the twentieth century, different factors have allowed for the emancipation of the business institution from its broader societal framework. Three main processes can be mentioned here: globalization, pluralization, and specialization. As many publications develop these processes in depth, we will only summarize them here.

*Globalization* is to be understood as the fall of time-distance boundaries and the inherent possibility for persons, goods, information, but also pollution, to travel at fast speed around the world (Beck, 2000; Palazzo, 2005). It increases the autonomy and power of multinational corporations (MNC) as it frees them from local communities and their specific value frameworks (Chandler & Mazlish, 2005b; Kobrin, 2001; Scherer et al., 2006). In consequence, the business world can develop its own institution, i.e., its own way of perceiving its environment, and of valuing (or not) the different demands from economic or non-economic actors – regardless of the norms prevailing in the specific local communities.

*Pluralization* stands for the increasing number of cultures sharing a common territory . It implies that traditionally dominating value frameworks loose their unquestioned status of sole 'guiding star' for individual action, and allow specific groups (ethnic, religious, etc.) or institutions (the business one, the scientific one, etc.) to develop their internal norms and worldviews (Ball-Rokeach & Loges, 1996; Beck & Lau, 2005; Gergen, 2000). These group-specific or institution-specific frameworks are no longer submitted to the implicit influence of an overarching structure recognized by all actors within the local community (Giddens, 1994; Habermas, 1996).

The emergence of institutions having their specific worldview is legitimized through *specialization*. Specialization relies on the idea that efficiency can be increased if institutions can develop their own worldviews and norms which fits at best with the their specific objectives (Luhmann, 1982; see critically Jonas, 1984; Laszlo, 1972). Specialization is of course one of the main drivers for the development of modern technologies and economy which contribute to general welfare. It also shapes the whole academic world, as the latter is mostly structured around chairs and faculties focusing each on a specific research field and developing specific research methodologies (Merton, 1973 [1942]; Weber, 1965 [1917]) It finally legitimizes the existence of an autonomous business institution which is unbound from local norms or overarching societal frameworks and can hence build on a specific understanding of economic actor, market, and business responsibility (Friedman, 2002 [1970]).

## **4.2 Characteristics of the business institution**

The liberating power of globalization for MNC as well as the legitimating effect of pluralization and specialization on the existence of autonomous institutions created some free room for the emergence of a specific business institution developing its own norms. The latter strongly rely on mainstream economic theory (Etzioni, 1989; Fitoussi, 2001; Rocha &

Ghoshal, 2006) which assumes (1) that individual actors are self-interested profit-maximizing agents, and (2) that the free market will transform egocentric business activities into general welfare.

The first assumption – economic actors are mainly profit-maximizing agents – is widely accepted in economics as it allows for the development of complex mathematical models, even if the cost is an over-simplification of reality (Friedman, 1953). This economic assumption has also been widely adopted among business scholars (see critically Ferraro, Pfeffer, & Sutton, 2005), and implies that many management concepts are built around the selfish nature of human beings and neglect other possible dimensions of humanity. In consequence, concepts such as the transaction-cost theory or the principal-agent theory become centerpieces in management models (Ferraro et al., 2005; Ghoshal & Moran, 1996). In some business research fields such as strategy or finance, self-interest becomes so taken-for-granted "that textbooks just assert it, rather than argue for it." (Sundaram et al., 2004: 350) In practice however, a too radical application of this concept seems far from increasing the quality and efficiency of the agent's work. Rather, these theories seem to increase selfish attitude and weaken the employees' commitment and morality (e.g., Arce, 2007; Gentile, 2004), eventually leading to a governance of "crooks" (Osterloh et al., 2004).

The second assumption – that the actions of the overly egocentric actor will contribute to the welfare of all through the "invisible hand" of the market (Smith, 1981 [1776]) – has also a tremendous impact on business practice. It promotes and legitimizes a mere individualistic identity orientation among economic actors. Relational or collective identity orientations are perceived as potentially harmful for the economy and perhaps even for society at large as they restrain economic growth (see critically Holt, 2006). Business actors – whether managers, shareholders, or consumers – ought hence to fully trust the economic market and neglect social reasoning. According to Friedman (1970), "the social responsibility of business is to

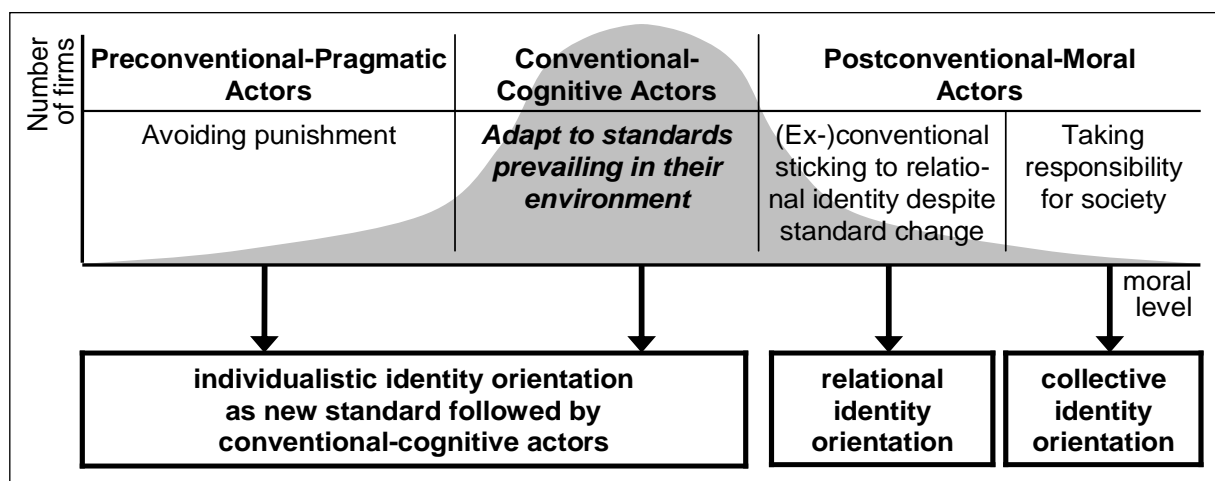
increase its profits", within some obvious limits set by general moral obligations. These moral limitations however have also been cast into doubts, opening the door for unlimited greed and selfish reasoning within the market sphere. Becker for instance asserts that the government has to develop incentives and threats which will induce moral behavior among self-interested actors, and even alleges that actors are wise to break the law if this is beneficial for them (e.g., Becker, 1968; Buchanan, 1986).

Such self-centered reasoning corresponds to Brickson's individualistic identity orientation presented above, which we related to pre-conventional moral reasoning. Hence, as these self-centered economic models gained in importance within business research and teaching, they fostered a shift in the business institution's norms, from a rather relational or collective identity orientation toward an individualistic one.

This results in a new repartition of the identity orientation among economic actors. The few pre-conventional actors following the individualistic identity orientation – which always existed – are joined by most conventional actors who see the individualistic identity orientation as the new standard prevailing in the business world. The rest of conventional actors, showing in this case a post-conventional level of thinking, resist to the identity shift and keep their relational identity orientation despite institutional change. Finally, there are still the few post-conventional actors following mainly collective identity orientation (Figure 3).

**FIGURE 3**

The shift of identity orientation and the new moral constellation



In consequence, many conventional business actors start to show an individualistic identity orientation freed from any moral or social limitations. They develop a "moral muteness" (Bird & Waters, 1989) and reduce laws and norms to mere "obstacles to be overcome, complex rule systems waiting to be manipulated and circumvented" (Levine, 2005: 727; see also Frohnen et al., 2002). Enron, UBS, or other banks currently in the financial and ethical turmoil are unfortunately too famous illustration of such reasoning.

### **4.3 The legitimacy of the disembedded business institution**

#### **4.3.1 From pragmatic to cognitive legitimacy**

These recent scandals have in turn shaken the previously taken-for-granted legitimacy of the business institution. At first, the value gap between the individualistic identity orientation of the business world and the broader society was legitimized through an explicit pragmatic reasoning. The "deal" was to grant the business institution a moral autonomy in exchange for its contribution to societal welfare (Friedman, 2002 [1970]; see also Palazzo et al., 2006). The business system was 'allowed' to emancipate from the broader society and to develop its own system of norms and values, in exchange of the benefits from its output; the latter were of course expected to exceed the perceived 'costs' resulting from the value discrepancy.

Over time, this pragmatic legitimacy evolved into a cognitive legitimacy. As time passed by, the 'legitimacy contract' allowing business autonomy in exchange for increased societal welfare became less and less questioned. It was considered as normal part of the broader framework and supported by widely accepted economic theories. Nowadays, after the fall of the Eastern Europe communist regimes, no alternative economic model seems able to challenge the individualistic identity orientation of the business institution (Zimmerli, 1992). The disembedded and self-centered understanding of business seems to represent one of those "cultural models that furnish plausible explanations for the organization and its endeavors" on which cognitive legitimacy is based (Suchman, 1995).

As a result, Suchman's *pragmatic* reasoning becomes paradoxically the standard on which *cognitive* legitimacy is granted. The explicit negotiation of one's normative autonomy in exchange for some other benefits turns into an implicit, taken-for-granted way of thinking. As this negotiation, based on individualistic identity orientation, represents the implicit standard used for granting (cognitive) legitimacy, the boundary between pragmatic and cognitive legitimacy fades away.

The normative gap between the business world and the broader society was in consequence not considered as illegitimate *per definitionem*. On the contrary, the last paragraph suggests that the business institution's normative autonomy has become more and more taken-for-granted and hence gained cognitive legitimacy.

Nowadays however, more and more voices complain that the societal contribution of the business system's individualistic identity orientation no longer outweighs the consequence of the normative gap. Sen (1977; 1987; 1999), Stiglitz (2002; 2003), and Krugman (2002) all argue that 'welfare for all' cannot be expected from an overly individualistic identity orientation in business. ('Healthy') self-interest seems to turn into (dangerous) greed, and to prevent the business world from answering the (economic) needs of the broader population. The recent financial crisis and its underlying ethical scandals such as the bonuses paid to executives despite negative results (remember A.I.G.) represents an additional illustration of the side effects of overly egocentric attitude in business. The value gap between the business institution and the broader society becomes too salient to be ignored. A legitimacy crisis emerges, which can be illustrated through the increasing distrust among the population toward managers and the business system in general (Giles, 2007; Unerman & O'Dwyer, 2004; World Economic Forum, 2002). Many authors call for a (re-)alignment of the business identity orientation with the one of the broader society (Adler, 2008; Chandler et al., 2005b; Ghoshal, Bartlett, & Moran, 1999; Kelly, 2001; Klein, 2002; Lasn, 2000; Nace, 2003; Palazzo

et al., 2006; Scherer et al., 2006). As the trade-off 'individualistic identity orientation' vs. 'welfare for all' has failed, it seems hardly plausible that pragmatic legitimacy can be granted again to the value gap. Moreover, the current economic and ethical crisis of business makes the business legitimacy issue too salient to see a cognitive legitimacy appear again.

What seems needed in consequence is not so much a renewed legitimacy for the individualistic identity orientation in business, but rather the business system's (partial) re-alignment of its identity orientation with the more relational or collectivistic identity ones expected by the broader society. Corporate Social Responsibility and Corporate Citizenship efforts show that there is a growing awareness about the necessity for firms not to rely on self-interest alone, but also to take the various stakeholders into consideration. Such efforts as well as the stakeholder approach certainly represent first steps in this direction.

## **5 Paths toward a identity orientation change**

As we have argued regarding moral isomorphism, identity orientation change might not so much be induced by increasing the managers' level of moral reasoning as by changing the business institution's paradigm. The moral isomorphism tendency of conventional actors suggests indeed that the legitimacy crisis is not due to a lower level of moral reasoning among managers – they are still conventional actors following surrounding norms. The cause relies rather in the risen awareness among the broader population that (1) the gap between the broader societal norms and those of the business institution has been widened, and (2) this gap can no longer be legitimized through the expectation that it will lead to a 'welfare for all'.

We have argue in propositions 3 and 4 that most economic actors still show a conventional level of moral reasoning. Therefore, they endorse the individualistic identity orientation not so much because of an explicit choice, but rather as the result of a (implicit) copying process. Such persons are not intrinsically 'bad', but rather a-moral entities copying the identity orientation of their peers (see Bird et al., 1989; Carroll, 1987).

If however another identity orientation emerges and becomes a new moral standard within the conventional actors' context, it can be expected that the many conventional actors who presently follow an individualistic identity orientation will align with the new standard and (again) show a relational or collective identity orientation (see also Callon, 1998; Gond & Palazzo, 2007).

It is therefore not necessary to try to increase the moral level of business actors in order for the business world to renew its legitimacy by better integrating civic virtues. On the contrary, it seems utopian to want all people to reach postconventional moral reasoning – most will indeed remain conventional (Kohlberg, 1969; Rest, 1983). Nevertheless, exactly because they operate on a conventional level, it suffices that the identity orientation considered as standard in the business context changes, for such actors to adopt a new identity orientation and hence renew the legitimacy of the business world.

## 5.1 The role of institutional entrepreneurs

The identity orientation change needs to be ignited in some way, and cannot be expected from conventional actors – the latter rather react to changes, but do not promote them. A systematical deviance from standard attitude and behavior is first needed from actors who dare to go against current norms – *institutional entrepreneurs*. According to institutional theory, institutional changes (for better or for worse) take place as key individuals – institutional entrepreneurs – start challenging the current standards by systematically following another norm and formally or informally promoting it. By doing so, institutional entrepreneurs shape the institution in the way they believe is best (Fligstein, 1997; Hemingway, 2005) and "develop novel and creative solutions" in order to anticipate potential problems or crises to come (Buchholz et al., 2005; see also Maak & Pless, 2008).

Over time, the insistence to behave in apparently abnormal way might lead other organizational members to change. At first, only a small part of conventional actors, namely

those close to postconventional level of reasoning, will adapt their attitude (see proposition 4b). They however play an important role as they instill a momentum to the emerging standard, making it more salient to the broader community. As more and more people follow the new norm, the latter will eventually become a new standard in a specific institution, and all its conventional members will therefore eventually adopt this new norm (see proposition 3b). In consequence, by assuming their civic responsibilities and integrating the societal norms into their work (Hemingway, 2005; Pruzan, 2001; Snell, 2000; Solomon, 1992; Whetstone, 2005), postconventional institutional entrepreneurs can contribute to a shift in the business system from the individualistic identity orientation toward a relational or collective one, and lead the large majority of conventional actors to change.

Even though we still lack a precise understanding of how a specific actors can trigger new standards (Hoffman, 1999), managers seem to bear a special responsibility for the organization's identity orientation (Chandler & Mazlish, 2005a; Comte-Sponville, 2004; Rockness & Rockness, 2005; Solomon, 2003), and in consequence for the identity orientation prevailing in the business system (Hemingway, 2005; Whetstone, 2005). Formally, they have the authority to define the values of the corporation, e.g., through mission statements or codes of conduct (see e.g., Pruzan, 2001); informally, their attitude and behavior toward internal or external stakeholders 'set the tone' as they are observed and copied by the other actors (Lantos, 1999; Trevino et al., 2000). The MNC generosity in the Minneapolis-St. Paul area nicely illustrates this influence of some key personalities on the corporate culture within the area. Galaskiewicz's (1991) observed indeed that both a formal and an informal local framework (including rewards and seminars) encourage MNCs in this area to make more donations to local charities and associations than in other US areas.

The change effort of key institutional entrepreneurs can further be strengthened by regulatory bodies or professional associations. These actors provide indeed the formal

framework which can transform at first informal norms into written and sometimes even compulsory documents. The condition, again, is that some post-conventional individuals within these organizations promote the formal change. For instance, the involvement of Kofi Annan in the creation of the Global Compact Initiative (Kell, 2005) and the development of ethical investment funds (Schueth, 2003) represent two important step in the institutionalization of CSR.

The chemical industry's higher concern for the environment nicely show how the combined action of postconventional actors can change the standards within an industry. Next to external incidents such as the Bophal catastrophe, Hoffman (1999) identified three concrete postconventional processes as trigger for the change: the publication of *Silent Spring* in 1962, Earth Day in 1970 (both typically initiated by postconventional thinkers), and diverse international conferences or protocols on the environment (measures at institutional levels). The result is that the environment has become an obvious and accepted issue for the chemical industry. A final example of a successful institutionalization of new standards is the development of the Forest Stewardship Council, initiated by some NGOs and corporations (Bartley, 2003) and now gaining in importance (Pattberg, 2005; Scherer & Palazzo, 2007).

Hence, through institutional entrepreneurs,

*"what was considered to be post-conventional behavior in the past, such as the social desirability of voluntarily reducing air pollution from factories to protect public health, became subject to conventional moral reasoning with the passage and implementation of state and federal air pollution legislation in the 1960s and 1970s." (Logsdon et al., 1997)*

In summary, it seems possible that institutional entrepreneurs initiate a process which might eventually pull the whole business system out of the actual standard into a new identity orientation which would be more relational or collective (Snell, 2000; Trevino, Hartman, &

Brown, 2000). Such change requires however the combined action of postconventional actors at various levels. First, managers can influence the identity orientation of their corporation by showing more interest for the concerns of their stakeholders and the community at large. Further, governing institutions such as states but also the World Trade Organization or the International Labor Organization play an important role in stabilizing the changes and institutionalizing them through formal texts. Finally, business schools can also play a role by (1) developing business models promoting alternative identity orientation and hence new legitimacy and (2) equipping postconventional or almost postconventional actors for their institutional entrepreneur role (Adler, 2008; Ferraro, Pfeffer, & Sutton, forthcoming; Gonin, 2007).

## 5.2 The role of business schools

Even though Felin & Foss (forthcoming) recently doubted of the business schools' power, many other authors – inside and outside the academic world – point toward a responsibility of scholars for the framework they instill to the business world (Gentile, 2004; Ghoshal et al., 1999; Gonin, 2007; Schiller, 2005). Ferraro, Pfeffer, & Sutton (forthcoming) affirm that

*"the theories we [business scholars] construct do matter, and therefore, the choices we make, including the choices and ideologies embedded either implicitly or explicitly in the theories we choose to advocate, matter also. All of this means that we have the opportunity to both envision and create a different, and maybe even better and more humane and just, world. But to do so, we need to be more attentive to the values and consequences embedded in the theories we embrace and more honest about their implications."*

The debate about the role of scholars in changing the identity orientation is certainly to be led by business ethicists. It however needs to include all business scholars, as it relates to the core of the business paradigm. Concepts such as those of institutional entrepreneurs need to be put forward, and debates are needed regarding the identity orientation to be promoted within business as well as on the managers' responsibilities in relation to their formal and

informal influence. Regarding research and the business paradigm, the negative side effects of globalization, pluralization, and specialization – which played an important role in the process leading to today's business legitimacy crisis – need each to be compensated by specific measures.

As mentioned above, *globalization* implies a change of the power relation between business actors and government, and business ethicists already discuss the inherent responsibilities of MNC (Kobrin, 2001; Scherer et al., 2007). A consequence is the strong focus of business schools on MNC at the expense of traditional small and medium enterprises (SME). The latter however often show a more relational or collective identity orientation and hence a higher level of embeddedness into the local community (Harris & Ogbonna, 2007; Jenkins, 2004). Better understanding the SME's views of business and social responsibility could provide relevant contributions to the discussion about MNC's CSR or CC. Encouraging research on local economies might hence be a first contribution of business schools to solving the current legitimacy crisis of corporations and counterbalancing the negative effects of globalization.

Second, the negative effects of *pluralization* – that is, the emergence of subsystems totally disconnected from the broader framework – need to be addressed in business schools by redefining the relation between market actors and the broader society. The business institution's self-centeredness is *per definitionem* deaf to demands from other societal actors (individualistic identity orientation). A relational or collective identity orientation is needed within business for economic actors to be able to listen to, and integrate, values and expectations from the broader society. The debate about the corporate responsibility regarding human rights is now well engaged (e.g., Scherer et al., 2006; Valor, 2005; Wettstein, 2009) – it needs however to be extended to other issues relevant to the broader society.

Finally, the specific anthropology prevailing in business research, based on the egocentric profit-maximizing actor and justified through *specialization*, needs to be reviewed in a multidisciplinary perspective. Human nature can certainly be egocentric and rational. Many studies show however that it can also be relational, altruistic, artistic, spiritual, and even sacrificial (Büchner, Coricelli, & Greiner, 2007; Fehr & Gächter, 2002; Miller & Ratner, 1998; Ratner & Miller, 2001). And the fact that managers are at the same time father or mother, member of an NGO, citizen of a specific country, neighbor to some people etc also influence their managerial decisions and actions (Nisan, 1991, 1993). Business schools need hence to broaden their understanding of specialization in order to better integrate this complex reality into their models. This broader approach is not only necessary within specific fields as it is already the case in ethics, leadership, or marketing, but also regarding the business paradigm in general. They might need to refer more heavily on *all* fields of social sciences such as psychology, sociology, or political science – and not only of economics. Similarly, business curricula need a better equilibrium between lectures in economics and classes regarding the many fields of social sciences.

## 6 Conclusion

We started this article by discussing the legitimacy of extreme self-interest in business and its links to moral reasoning and identity orientation. We then suggested that the business institution emancipated from the broader societal framework and developed its own values and behavioral norms, mainly based on the individualistic identity orientation prevailing in economic theory. This identity orientation was adopted by most conventional actors, creating a value gap between the norms of the broader society and those of the business system. This gap has been legitimized through a 'legitimacy contract' trading the business normative autonomy in exchange for its contribution to societal welfare. Over time, this legitimacy

contract has become taken-for-granted until the recent downfall of the financial world and its consequences for the whole economy has brought into light the depth of the gap.

We further referred to 'moral isomorphism' – the adoption by business actors of the prevailing identity orientation – in order to discuss the causes of the current legitimacy crisis of business. We argued that the individualistic identity orientation currently prevailing in the business world does not necessarily represent moral decline. It rather reflects an adaptation of conventional actors to the individualistic standards promoted by the mainstream business model. Behaviors which could be attributed at first glance to pre-conventional morality are hence to be considered rather as the result of the moral isomorphism strategy of conventional actors. Nevertheless, moral isomorphism not only explains the current ethical downfall of business; it also represents a central piece in solving the legitimacy crisis. It implies that it is not necessary for all firms to change their level of moral thinking in order to solve the legitimacy crisis. Rather, it suffices that enough post-conventional institutional entrepreneurs promote a relational or collective identity orientation and instill such orientation into some key business structures for the many conventional-cognitive firms to adapt and develop a relational or collective identity orientation (Gond et al., 2007). Such post-conventional actors already exist (see e.g., Morrison, 2006). What is still missing is the development of a business model that integrates the different alternatives into a coherent paradigm systematically encouraging and justifying this new identity orientation in business (Adler, 2008; Fitoussi, 2002; Valor, 2005). This paradigm shift, probably unavoidable if business is to regain its legitimacy, is mainly the responsibility of business schools.

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