

Do business ethics worsen during economic crises? A study of Russian attitudes

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ABSTRACT

Do economic and financial crises lead to more unethical behavior? This is a question that the authors try to answer among samples of managers and business students in Russia. A number of studies conducted in the United States and Europe have concluded that in some cases there has been no change in ethical behavior, but in others behavior has worsened. In practically all cases, however, more attention was paid to ethical issues as a result of the crises.

Russia has been ranked very low in measures of business ethical behavior. While there is much room for improvement, there was not much hope that this would occur during an economic crisis. However, the purpose of this study was to determine what aspects of the ethical climate determine whether behavior will worsen, remain the same or improve during a period of economic crisis. Some of the major findings were that ethical behavior during crises were determined by self interest, disregard for others, a lack of religious conviction and reward or punishment.

Keywords: Bribery, corruption, economic crises, success and ethical behavior, personal ethics

CORRUPTION AND BRIBERY IN RUSSIA

Examples of economic crime, mainly corruption, appear from time to time in the Russian press. According to the Russian Federation Ministry of Internal Affairs, such crime amounted to 1 trillion rubles (about \$3.3 billion) in 2009. Criminal cases involving corruption increased 38 percent and bribery by 6 percent between 2008 and 2009. Nevertheless, in the opinion of both Russian and foreign observers, the Criminal Code responsible for economic crime has too many loopholes to monitor and prosecute the many cases involving corruption and bribery¹. Although convictions have increased over the years they are still low in proportion to the number of cases brought up on charges. In 2009, almost 1700 people were found guilty of bribery in Russia. Out of these, only 356 have been sent to prison and just 15 people received more than a five-year term².

Trace International reported the results of a 2009 survey of 286 anonymous bribe payers about bribe demands in Russia. Thirty-two percent of the bribes amounted to between \$20 and \$100. Nearly 73% of the solicitations were for \$1,000 or less³. Apparently, large-scale bribery is not sufficiently monitored or prosecuted. More than half (63%) of the solicitations reported in Russia were extortion demands requested to secure the timely delivery of a service to which the victim was already entitled (e.g., clearing customs, having a telephone line installed); to avoid some outcome or consequence harmful to the victim or their business; or to secure payment for services already rendered. Sixteen percent of the bribe demands were for gaining a personal or business advantage (including receiving inappropriate favorable treatment, exercising influence with or over another government official, or winning new business)⁴.

ECONOMIC/FINANCIAL CRISES AND ETHICS

Conventional wisdom would have it that ethical behavior should decline during economic and financial crises as business people are tempted to "cut corners" owing to pressures to achieve objectives during difficult times, or simply to survive. However, surveys among managers and employees in the United States have shown that the 2008-2009 financial crises did not result in an increase of unethical behavior. According to the 2009 National Business Ethics survey conducted by the Ethics Resource Center, most key measures of ethical behavior improved from those reported in 2007, shortly before the recession started. In the 2009 study, additional questions were asked to ascertain whether and how the recession may have impacted ethical culture and standards of conduct. Some 3,010 employees were interviewed by the Opinion Research Corporation on the subjects of transparency and accountability in organizations, executive compensation, financial fraud, theft, whistle-blower reporting and retaliation and pressures to commit wrongdoing.⁵ Overall, 78 percent of those interviewed said that they or a colleague had been affected by their company's effort to cope with the recession. The largest percentage experienced the effects of hiring freezes, adjusted work schedules, and layoffs.

As in past studies, the 2009 report showed that there is a strong association between rising awareness in ethics and a strengthening of ethical culture in times of anxiety, worry, and dislocation. A likely reason for this strengthening may be a result of supervisors and

¹ www.newsru.com, retrieved January 27, 2010.

² *Prime Time Russia*, September 27, 2010.

³ www.traceinternational.org/news/bribelinedata.asp. Retrieved September 27, 2010.

⁴ *Ibid.*

⁵ 2009 National Business Ethics survey, Ethics Resource Center. Respondents were 18 years or older and currently employed at least 20 hours per week for a company with at least two employees.

managers speaking more often and more convincingly about ethical behavior or other ethics related issues in times of concern about the company's well-being or even its continued existence. Another reason may be that employees who are prone to misbehave are not as likely to take risks during times of high uncertainty.

In a unique new opinion poll conducted through *Facebook*, over 130,000 respondents (most of whom were under 30 years old) in France, Germany, India, Indonesia, Israel, Mexico, Saudi Arabia, South Africa, Turkey and the United States were questioned⁶ about how they saw the role of values in the economy. Strikingly, over two-thirds of the 130,000 respondents believed that the 2009 economic crisis was also a crisis of ethics and values. This number is significantly higher among older participants—79 percent of respondents over 30 hold this opinion. At the country level, Israel (55%) and Turkey (53%) show the lowest level of affirmative answers. Whether the "crisis of values" occurred because of financial problems, or whether it was believed that a lack of ethics was a cause of the economic crisis is not clear from the survey results.

Another source of ethical behavior, or better, beliefs is given by the Edelman Trust Barometer.⁷ In answer to the question: "How much do you trust business to do what is right?" trust in business increased by 18 percent from 2009 to 2010 in the United States (54 percent of respondents), 6 percent in Germany and France (40 percent of respondents), 26 percent in Italy (59 percent of respondents), and 3 percent in the UK (49 percent of respondents). It declined by 6 percent in Japan (57 percent of respondents), 5 percent in Brazil (62 percent of respondents) and 4 percent in India (67 percent of respondents). The largest decrease was 10 percent in Russia (42 percent of respondents).⁸ Germany, France and Russia had the lowest percentage of respondents trusting business, while Russia had the highest percentage decline in trust. The extent of the decline in trust is apparently closely associated with the financial crisis in each of these countries. What the data of all three surveys do not show however, is the contextual structure of this behavior. Was the decline in trust a result of the financial crises, especially in Russia, which experienced the greatest loss of trust? Or, was the decline in trust attributed to other causes? In order to answer this question, the authors conducted a survey among executives and business administration students in Russia during the financial crisis of 2009. Russia was selected because of its low trust in business and its relatively high degree of corruption as noted by its rank on the Transparency Corruption Index⁹. The methodology of the survey and results are reported below.

METHOD

Sample

Convenience samples of 118 graduate business students were drawn from Bonch-Bruевич State University (St. Petersburg) and the St. Petersburg Polytechnic University. Some demographic characteristics of the students are as follows. 64 percent are single; fifty-three percent are religious or keep traditions, while 47 percent are not religious at all. Sixty-

⁶*Faith and the Global Agenda: Values for the Post-Crisis Economy*, World Economic Forum, Geneva Switzerland, 2010. It should be noted that the *Facebook* universe is not necessarily representative of the respective populations. Generally, respondents are significantly younger than the overall population.

⁷ The Edelman Trust Barometer is based on a sample of 4,875 "informed publics" (college educated, household income in the top quartile, read or watch business/news media at least several times a week, follow public policy issues at least several times per week). in two age groups, 25-34 and 35-64.

⁸ There was no change in China.

⁹ Russia was ranked 154 out of 178 countries polled. Its index was 2.5 out of a possible 10. By comparison, Denmark was tied in first place (lowest corruption) with New Zealand and Singapore with indices of 9.3.

one percent are male and 39 percent female. At the same time, another convenience sample of 67 Russian business executives was taken in St. Petersburg. The executives were at the Vice-President level employed in firms that have an average of 100 employees. Forty percent have over six years of managerial experience, 21 percent from four to six years of experience, and forty percent less than four years of experience. In contrast to the students, only 22 percent are single. Eighty-eight percent are male and 12 percent female. Forty seven percent are religious or keep traditions, while 53 percent are not religious at all. In comparison to the student distribution, there are more males in the managerial sample, more are married and fewer are religious.

Questionnaire

The questionnaire contained three sets of questions to determine ethical climate, the relationship between ethical behavior and managerial success and attitudes to a number of ethical issues, as well as demographics of the respondents. The questionnaire used was adapted from studies cited below. Its original English version was translated into Russian by a bi-lingual PhD business student and then back translated into English by a teacher of Russian who is fluent in both languages. Students were also asked to state whether or not they had attended a course in business ethics.

STUDY PARAMETERS

Ethical Climate

Ethical climate is a barometer of organizational practices that have moral consequences (Cullen et al., 2003). An ethical climate is not a characterization of an individual's ethical standards, but rather a component of the individual's environment as perceived by its members. It was measured using six classifications developed in previous studies (Victor and Cullen, 1987, 1988, 1990; Deshpande, 1996; Deshpande et al., 2000a, b). The six climates are: Law and Codes (people are expected to comply with the law and professional standards), Caring (our major consideration is what is best for everyone), Rules (every one is expected to stick by rules and procedures), Instrumental (people protect their interest above all else), Efficiency (the most efficient way is the right way), Independence (each person decides for themselves what is right and wrong). These climates were measured by a Likert-type scale, where 4 = "mostly true" and 1 = "mostly false". A high score on the scale denotes the presence of or belief in an ethical climate, while a low score denotes the lack of one.

Success and Ethical Behavior

To what extent do respondents believe that there is a relationship between ethical behavior and managerial success? This question was investigated by a series of issues that may be termed "ethical optimism" measured by five items developed by Hunt et al. (1984) and used also by Victor and Davis (1990) and Deshpande et al. (2000a). Each item was measured using a four-point Likert type scale with 4 signifying "strongly agree" and 1 indicating "strongly disagree".

Ethical Attitudes

In addition to ethical climate, students were asked to respond to eighteen statements that were intended to determine their attitudes towards a number of ethical and social responsibility issues (Grünbaum, 1997). In addition, three questions pertaining to the relation between economic crisis and ethical behavior and a question pertaining to religious observance. Their answers were recorded on a Likert-type scale ranging from 4 = “strongly agree” to 1 = “strongly disagree”. The answers to these issues were subjected to a correlation analysis with the results from the ethical climate and the success and ethics behavior scales.

FINDINGS

Ethical Climate

As shown in Table 1, both students and managers believe that Law and Codes (comply with the law), Independence (each person decides what is right or wrong) and Efficiency (the most efficient way is the right way) were present in their work environment. On the other hand, Instrumental behavior (personal interest should be protected) was somewhat “true” for both sub-samples. Caring (what is best for everyone) and Rules (stick by rules) were found to be absent from the work environment. Measures of intercorrelations among ethical climate types showed a high degree of independence among them for the student sub-sample. The same pattern was found for the managerial sample, with only positive correlations between Caring and Efficiency. These findings are consistent with those of Victor and Cullen, 1987, 1988; Deshpande, 1996 and Jaffe and Tsimmerman, 2005.

Do students and managers perceive the same ethical climate? The findings as indicated in Table 1 Appendix) show that of the six indicators of ethical climate, five differed significantly between students and managers. Only one climate, Independence, was not significantly different between the two groups. There was a high degree of agreement with compliance with the law (Law and Codes), but significantly higher for managers than for students. The belief in "what is best for everyone" (Caring) was higher for managers than for students. On the other hand, Rules, Instrumental and Efficiency were rated higher by students than managers. Especially significant was the low rating by managers of (stick by) Rules by managers, although only 56 percent of the students agreed with this climate as opposed to 28 percent of the managers. These findings show that there is a significantly lower ethical climate demonstrated by managers than indicated by students.

Ethics and Success

A test for scale reliability resulted in a two-factor solution for both student and manager samples as indicated in Table 2 (Appendix). The scales have an acceptable reliability, given the coefficient alphas for both samples. The first component for the managerial sample may be labeled as “unethical behavior”, while the second, as “unethical behavior toward colleagues”. The first component for the student sample may be labeled as "promoting self at the expense of others", and the second factor as "compromising one's ethics".

As indicated in Table 3 (Appendix), both students and managers believe that there is a strong relationship between unethical behavior and the chance to succeed in business (all means above 3. the scale). Both groups believe that in order to succeed, ethics must be compromised, and that detrimental information that will harm their self interest should be withheld. In addition, both groups believe that successful managers look for a “scapegoat” to cover their failures, take credit for others’ achievements and take actions that show their

rivals in a negative light. Students indicated stronger agreement on all five indicators, but there was a significant difference between the attitudes of students and managers only for the descriptor “Successful managers make rivals look bad in the eyes of important people”, indicating a significantly higher agreement with this statement among students.

Ethical Attitudes

The attitudes of students and managers towards a number of ethical issues such as reactions to moral problems, bribe taking, honesty and ethical behavior during economic and financial crises as indicated in Table 4 (Appendix). A mean answer over 3.0 means that the respondents agreed with the statement; less than 3.0 signifies disagreement.

The results show that both students and managers do not believe that honesty pays in the long run, a manager cannot afford to deliberate on moral issues, and holding companies established by international concerns are unacceptable because they are a form of tax avoidance. There is agreement that when faced with moral issues, the well-being of the company takes precedent over the economy, social problems are the responsibility of government and not business, foreign businesses operating in Russia should follow local ethical codes of behavior, and as long as laws are obeyed, a company’s actions are morally justified. Moreover, when conducting business outside of Russia, one should act according to local norms (including bribe taking). All of these attitudes on the part of both students and managers to ethical issues demonstrate that when making business decisions, ethics will not be an important consideration, if at all.

Both students and managers believe that in an *economic crisis*, government and business corruption increases, and it is acceptable to compromise one’s ethics.

To sum up, both students and managers demonstrate a lack of ethical principles particularly when their behavior is compounded by an economic crisis.

To what extent do the opinions of business students agree with those of managers? In almost every ethical issue, managers were more in agreement than students regarding the permissiveness of unethical behavior. Mann-Whitney tests for significant differences between both sub-samples show that in answer to the three questions about ethical behavior during an economic crisis, both students and managers agree that it is acceptable to compromise one’s ethics. In particular, on all three issues managers more strongly agreed than students regarding the three issues, two of which were significantly different at the .01 level.

PERSONAL ETHICS AND SUCCESS

An additional analysis investigated if there is a relationship between personal ethics and the belief that it is necessary to compromise ethics in order to succeed in business. This analysis was performed by Pearson correlations on the entire data set. This relationship differs between managers and students, as indicated in Table 5 (Appendix), the dependent variable “in order to succeed...it is necessary to compromise ethics” was significantly correlated with five descriptors in both samples, although the descriptors were different in each. Students who believe in compromising ethics also believe in following rules (whatever they may be), that foreign holding companies are unacceptable, in following principles of equality and human rights (the latter two are apparently a contradiction with compromising ethics) and that consequences for other people are not important. In addition, students do not believe in efficiency. Managers who believe in compromising ethics also believe that a person is concerned with his/her self interest, that which is legal is also ethically acceptable, the expectations of society (whatever they may be) and religious conviction (the belief that

compromising ethics is held more by those who are more religious). Apparently, Religious observance does not prevent unethical behavior when faced with an economic crisis. This assumption is buttressed by a correlation between "it is acceptable to compromise one's ethics during an economic crisis" with "religious conviction" as indicated in Table 6 (Appendix). The negative correlation signifies that those who practice religion the least are more willing to compromise ethics during an economic crisis.

ECONOMIC CRISES AND ETHICS

It has been shown that both student and managerial respondents strongly agree that during an economic crisis, corruption in government agencies and business increases, and that it is acceptable to compromise one's ethics when such business and economic conditions occur. Moreover, there were no significant differences between both groups concerning these beliefs. An analysis of the relationship between an economic crisis and ethical beliefs was performed by correlating the descriptor "It is acceptable to compromise one's ethics during an economic crisis" with the entire data set. The results show that in the case of students, there are nine descriptors correlated with the belief that it is "acceptable to compromise one's ethics during an economic crisis" compared to five descriptors for managers. Only one descriptor, "punishments and rewards" was significantly correlated for both groups. This sort of behavior is on the lowest (pre-conventional) stage of Kohlberg's theory of moral development, which describes the person who may act ethically only to avoid punishment or to receive a reward for the act. A similar finding was reported by Stewart et al (2002) in a study of civil service employees in Poland, Russia and the United States. Russian managers expressed a higher preference for lower rather than lower stage reasoning.

In the case of students, the results show that those who believe that compromise is an option during an economic crisis, also believe that it is alright to act in one's self interest, to bribe, to act according to ethical norms of the host country, and not to care about what is best for everyone. In the case of managers, the results show that those who believe that compromising is an option during an economic crisis also believe that it is acceptable to withhold information in order to succeed. They do not believe that "what is legal is also ethically acceptable". Another finding is that there is a significant correlation between those who believe that it is acceptable compromise ethics during an economic crisis and religious conviction. In addition, as age increases, both managers and students share the belief in compromising ethics. Apparently, in Russia, younger people are more idealistic and people who claim to adhere to a religious belief act more ethically during an economic crisis.

MANAGERIAL AND RESEARCH IMPLICATIONS

This research has shown that measures of ethical behavior suggested by Cullen et al., 2003; Victor and Cullen, 1987, 1988, 1990; Deshpande, 1996; Deshpande et al., 2000a, b; Hunt et al. (1984); Victor and Davis (1990) and Grünbaum, 1997 reliably measure ethical climates and attitudes. The study findings have shown that internal perceptions of Russian ethical behavior by business students and managers in our St. Petersburg samples verify the ranking of Russia in global polls such as the Transparency Index of Corruption. That business ethics is not a high priority in Russia has been reported in the local media and comes as no surprise. However, what can be done about the lack of moral turpitude in Russia?

There are few significant differences between the perceptions of students and managers regarding ethical behavior. While some of these behaviors may be owing to the economic and financial crisis, another reason may be owing to a lack of background

institutions that deal with promoting ethical behavior. Western counterparts such as Transparency International, The National Institute of Ethics, Business Roundtable Institute for Corporate Ethics (both in the United States), the Canadian Centre for Ethics & Corporate Policy, and the Institute for Global Ethics (UK Trust), to name a few. Two of the only independent institutions of its kind in Russia are Transparency Russia and the Center for Business Ethics Corporate Governance who cooperate together to combat corruption. In addition, some business schools in Russia offer business ethics courses. However, there is some doubt about the effectiveness of such courses. The findings in this study showed few significant differences in our data set between those taking an ethics course and those who did not. So, both students and managers apparently solve ethical dilemmas on the basis of personal values. For example, Badaracco, Jr. and Allen Webb (1995) found that young managers (including Harvard graduates) resolved ethical dilemmas they faced largely on the basis of personal reflection and individual values, not through reliance on corporate credos, company loyalty, the exhortations and examples of senior executives, or philosophical principles or religious reflection.

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APPENDIX

Table 1: ETHICAL CLIMATE of RUSSIAN UNIVERSITY STUDENTS and MANAGERS

ETHICAL CLIMATES	STUDENTS			MANAGERS			Sig. Dif.
	% Agree	Mean	Std. Dev.	% Agree	Mean	Std. Dev.	
Law & Codes	83	3.27	.893	96	3.67	.561	.002
Caring	21	1.97	.911	40	2.34	.978	.009
Rules	56	2.84	.943	28	2.07	.989	.000
Instrumental	71	2.97	.919	43	2.45	1.118	.001
Efficiency	86	3.47	.824	79	3.24	.818	.022
Independence	91	3.53	.688	83	3.27	1.008	.191

A four point Likert-type scale was used (4 = “mostly true”...1 = “mostly false”).

Table 2: FACTOR ANALYSIS OF THE ETHICAL SCALE

DESCRIPTORS	FACTOR COMPONENT			
	STUDENTS		MANAGERS	
	1	2	1	2
In order to succeed it is necessary to compromise one’s ethics	-.176	.791	.668	-.070.
Successful managers withhold information that is detrimental to their self interest	.448	.084	.751	..115
Successful managers make rivals look bad in the eyes of important people	.754	.083	-.240	.764
Successful managers look for a “scapegoat”	.209	.692	-.452	-.470
Successful managers take credit for the ideas and accomplishment of others	-.735	.195	.195	.644
Eigenvalue	1.39	1.15	1.5	1.15
Explained variance	27.8	23.0	29.4	23.0
Coefficient alpha			.748	.664

Varimax rotation.

Table 3: ETHICS AND SUCCESS

SUCCESS INDICATORS	STUDENTS		MANAGERS		Sig. Dif.
	Mean	Std. Dev.	Mean	Std. Dev.	
In order to succeed it is necessary to compromise one's ethics	3.24	.874	3.22	1.027	.784
Successful managers withhold information that is detrimental to their self interest	3.36	.938	3.25	1.064	.712
Successful managers make rivals look bad in the eyes of important people	3.49	.845	3.24	.986	.057
Successful managers look for a "scapegoat" when they feel they may be associated with failure	3.36	.823	3.31	.972	.901
Successful managers take credit for the ideas and accomplishments of others	3.55	.723	3.24	1.088	.160

A four point Likert-type scale was used (4 = "strongly agree" ... 1 = "strongly disagree").

Table 4: ETHICAL ATTITUDES OF STUDENTS AND MANAGERS

ETHICAL ISSUES	STUDENTS		MANAGERS		Sig. Dif.
	Mean	Std. Dev.	Mean	Std. Dev.	
In business, honesty pays in the long run	2.81	.859	2.67	1.211	.000
A person's actions may appear unselfish, but mostly he/she is concerned with his/her own interest	2.69	1.210	2.27	1.162	.027
A business manager cannot afford to deliberate on moral issues	2.19	1.048	2.04	1.133	.238
When people are faced with moral problems, emotions and intuition weigh more than rational arguments	3.14	.866	3.39	.887	.017
When the company that I represent conducts business in another country, it should act according to the ethical norms of that country	2.95	.950	3.21	.993	.032
The decisions of a business manager should be based on the well-being of his/her company; not of the whole economy	3.62	.626	3.49	.877	.721
The holding companies established by international concerns are unacceptable because they are a form of tax avoidance	1.87	1.017	1.45	.822	.001
In some countries, the taking of bribes is customary in business. When the firm I represent conducts business in these countries, I can take bribes as well	3.22	1.014	3.12	1.162	.871
Social (for example environmental) problems should be solved by the government, not by business managers	3.54	.735	3.66	.617	.319
When a firm acts according to the law, it cannot act morally wrong	2.41	1.269	3.21	1.008	.000
When a foreign company conducts business in Russia, it should act according to the moral conceptions of the Russian society	3.39	.978	3.70	.578	.090
In business, that which is legal is also ethically acceptable	3.33	.925	3.46	.893	.268
During an economic crisis, corruption in government agencies increases	3.38	.896	3.62	.734	.060
During an economic crisis, corruption in business increases	3.22	.878	3.76	.579	.000
It is acceptable to compromise one's					

ethics during an economic crisis	3.33	.785	3.64	.569	.006
When Facing Moral Problems, My Decisions are Influenced By:					
Expected punishments or rewards	3.44	.768	3.43	.908	.555
Law and order	3.27	.893	3.67	.561	.002
Expectations of Society	2.43	1.042	2.51	1.078	.657
Principles of equality and human rights	2.16	1.046	1.81	.839	.032
Consequences for other people	1.76	.903	1.70	.887	.662
The acceptance of those close to me	2.85	.948	2.78	1.125	.834
Religious conviction	3.53	.844	1.75	.958	.000

A four point Likert-type scale was used (1 = "strongly disagree"...4 = "strongly agree").

Table 5: COMPROMISING ETHICS AND ETHICAL ATTITUDES

Descriptors	In Order to Succeed in My Organization it is Necessary to Compromise One's Ethics	
	STUDENTS	MANAGERS
Rules	.265 .004**	
Efficiency	-.253 .006**	
Foreign holding companies are unacceptable because they are a form of tax avoidance	.198 .032*	
Principles of equality and human rights	.192 .038*	
Consequences for other people	-.242 .008**	
Religious Conviction		.243 .047*
A person is mostly concerned with his/her self interest		.279 .022*
In business that which is legal is also ethically acceptable		.282 .021*
Expectations of society		.306 .012*
Occupation		.246 .045*

*p ≤ .05; **p ≤ .01

Table 6: RELAXING ETHICS DURING ECONOMIC CRISES AND ETHICAL ATTITUDES

Descriptors	It is acceptable to compromise one's ethics during an economic crisis	
	STUDENTS	MANAGERS
Successful managers withhold information		.252 .034*
A person is mostly concerned with his/hers self interest	.245 .008**	-.089 0.07
When the firm I represent conducts business abroad, I can take bribes as well	.402 .000**	
When the company I represent conducts business in another country, it should act according to the ethical norms of that country	.183 .047*	
In business, that which is legal is also ethically acceptable		-.295 .015*
Expected punishments or rewards	-0.144 .001**	.334 .006**
Principles of equality and human rights	.268 .019**	
Caring	-.215 .043*	
Instrumental	.367 .000**	
Efficiency	.218 .018*	
Religious conviction		-.308 .011*
Gender		.255 .037*
Age	.204 .027*	.255 .037*

*p≤ .05; **p≤ .01

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