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ORGANIZATIONAL TRANSFORMATION

Charging at Windmills: A Case of Moral Awareness and Organizational Transformation

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1. The Ethical Dilemma

The subject of the paper, Jay-yong Lee, could be the basis of many studies. Lee is the Grandson of the founder of Samsung Electronics. Born into the Lee family could be regarded as bitter-sweet. The family collective is worth billions of US dollars (News, 2018). The company is a major global brand and is very influential in both global and Korean social and political spheres. When Lee's father BC Lee had a stroke and entered a coma in 2014. Lee was elevated to Deputy Chairman. His father remains Chairman but cannot vote his stock under the current medical circumstances. Lee is confronted with his first major headwind and moral dilemma within months of entering his new role. Major shareholders made an attempt at ceasing control of the business. Lee had to act rapidly (AFP, 2017).

Unfortunately, Lee and the close family circle around him had less than 5% of the outstanding equity. He may have considered various strategies, but the path he chose was particularly interesting, on many levels.

2. The 'Lee Plan'

Confronted with the problem of being outvoted, external pressure, time urgency, and the perceived risk to the 'family' business, Lee made a decision that seems to be consistent with both the history of the country and of his family. He chose to be deviant.

To acquire sufficient votes to maintain control he needed to consolidate two subsidiaries of Samsung that had a cross-holding of Samsung shares. The consolidation of these subsidiaries would provide him with greater personal control of the parent, Samsung Electronics. The two subsidiaries were Cheil Industries and Samsung C&T, and they were both listed (Choudury, 2017). Prima facie, there was no obvious corporate rationale for this merger, and thus Lee realized he would face a headwind from global shareholders. His concern was not acquiring the necessary number of votes to push the merger through (Hyunjoo J, 2017).

Lee needed substantial votes of the Korean National Pension Fund (NPF). The NPF is autonomous and is generally perceived to be thorough investors and an autonomous entity representing the Korean people. It has approximately USD 450 billion under management and holds substantial equity stakes in domestic Korean companies (AP, 2017; Einhorn, 2017). Lee realized that without the NPF support, he would fail in the subsidiary merger, and would potentially lose control of Samsung. Objectively, he was faced with a dilemma. On the one hand, he could focus on commerciality and governance in pursuing a transparent offer to shareholders. On the other hand, he could attempt to increase the probability of success by planning a more surreptitious approach to the problem. Lee chose the latter.

The 'Lee plan' was as follows: Samsung would sponsor and buy horses for Chung Yoon-ra, a Korean equestrian athlete. The mother of Yoon-ra, Soon-sil Choi, would undertake to convince the presiding President of Korea, President Park, to ensure that the NPF voted in favor of the merger. The relationships between the parties were simple: The father of Yoon-ra was the ex-husband of Choi and President Park's former Chief of Staff. The mother of Yoon-ra was the business partner of President Park. It was a 'family affair' and President Park would have been compensated in some manner (Hyunjoo J, 2017).

The plan resulted in the arrest of Lee, Yoon-ra Park (daughter), Soon-sil Choi (mother), and the head of the NPF. President Park was impeached. Personally, Lee was charged with perjury, embezzlement of company funds, bribery and concealing assets offshore (Choudury, 2017).

In the author's opinion and somewhat clearly, the Lee plan was unethical and not handled appropriately. If Samsung, a publicly traded global company, had followed a basic Code of Conduct and Standards of Professional Conduct, they would have adhered to the following broad and non-exhaustive guidance:

- Act with integrity, competence, diligence, respect and in an ethical manner;
- Place the integrity of the business above their own personal interests;
- Use reasonable care and exercise independent professional judgment when taking investment actions and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves;
- Promote the integrity and viability of the capital markets for the ultimate benefit of society;
- Knowledge of the Law;
- Independence and Objectivity;
- Misrepresentation;
- Misconduct;
- Market manipulation;
- Fair Dealing; and
- Conflicts of Interest.

3. Reasons for the Inappropriate Decision

The media, and commentators more generally, were shocked at the revelation of Lee's actions given his stature both in Korea and the investment world. Kish-Gephardt and Harrison refer to the concept of bad barrels (macro environment), bad crates (the issue at hand), and bad apples (the individual) in assessing sources of unethical decision-making (Kish-Gephart, Harrison, & Treviño, 2010). In the context of Lee, one should start with the 'Barrel' - Korea.

The history of Korea is such that the notion of a moral continuum is distinctly absent in the culture. This generalization is not born out of judgment from afar, but rather the material and high-profile moral and legal cases that have plagued the country's business and political environment. In short, over the last century Korea has been colonized by Japan (1910-1945), managed by post-war dictators and western occupiers, divided by the Russians and the USA post-war, occupied by North Korea and subject to war, and since 1954 the country has been progressed by a bilateral pact between government and ten major family dynasties (chaebols or 'wealth clans'). This pact was created from the base of post-war 'ashes' and was seen as the only way to achieve the goal of being a global export giant (Kwaak, 2017). The pact ensured that the government supported the chaebols in any way possible. The Chaebols currently make up some 80% of South Korean GDP. Prior to the pact, Korea was an agrarian economy.

Simplistically speaking, there is no clear evidence of a national identity that is forged in community and independence. In fact, it is an identity supported by and dependent on the extremely commercial pact between government and chaebols. The visible lack of independence between government and business is palpable. To be specific, of the ten chaebols, six of the chaebol heads have been indicted on various charges over the decades. The judiciary indicted and charged; the government pardoned all of them. Indeed, even Lee's father BC Lee was charged twice for corruption, inter alia, but was pardoned on both occasions (Kwaak, 2017). The author of this paper asserts that a major determinant of Moral Awareness is the extent to which the macro environment recognizes and responds to ethical behavior and thus the creation of 'norms. In this sense, it is difficult to be comfortable with the Moral Awareness in South Korea. This 'bad barrel' is the environment in which Lee was raised. It is thus not surprising, from a macro perspective, that Lee acted in this manner. It appears to be the norm. The country is continuously under a cloud of sporadic outbreaks of

bribery, poor governance, and extremely complicated and deliberate shareholding control structures that have the dual role of accumulating fortunes and ensuring control. The culture regarding such actions appears to be guilt-free. Moreover, the culture is sustained by the explanation and adulation of the system within the school curriculum which presents the pact as the genesis of extraordinary success and the reason for Korea's existence.

Following from the above, the business environment is dictated by the pact, as aforementioned. Uniquely, the macro environment and the business environment possess the same norms. The pact ensured that outcome. For Lee to act professionally in such a manner is thus not surprising and requires no further attention. The pact ensured a bad barrel and a bad crate.

Considering Lee's actions from an individual perspective introduces additional determinants. Lee was 54 years old when this occurred, and he is a Harvard graduate. He is deemed shy and articulate and was rarely in the public eye. From an individual perspective, one would not have thought that such an individual (age, education, and personality) would undertake such a plan. What this potentially indicates, is that the sequential four-factor model for ethical decision-making (referred to below) is correct in the placement of Moral Awareness as the first factor in the sequence. The author regards this factor as primarily a macro factor-the environment within which an individual makes decisions matters. This is certainly the case for Lee in that his perceived individual characteristics were completely overwhelmed by parent precedents, and business and political norms.

In sum, to create such a plan was not a deviation from the norms of his environment and while there may have been a judicial risk assessment on his part, to consider more compliant alternatives was secondary in his locus of attention. The odds of ethical decision making are far lower for an individual 'apple' if the barrel and the crate are 'bad'.

That is, without Moral Awareness, the ethical choice will rarely occur despite other factors in the sequence of decision making.

4. The Four Factor Model for Ethical Decision-Making

The fields of ethics and social behavior have produced few theories of moral development. However, there has been material development during the mid-1980s on building on theory and creating a coherent and generalized model. While Kohlberg, as the first primary contributor, made inroads into moral behavior through analysis of students and the interaction of psychology and moral philosophy, his multi stage-model was complex and academic (Kohlberg & Hersh, 1977). In contrast, Rest leveraged off Kohlberg's approach and proposed a four-factor model that considered the sequential stages of ethical decision making: *Awareness, Judgement, Intention, and Behavior* (Rest, 1986). This approach has been deemed broader than Kohlberg's model and more flexible in its application. Rest argued that each component is independent of the others and thus one factor does not imply success of the other factors.

Trevino added to the process by contributing the concept of the ethical dilemma that emerges from the environment. This ethical dilemma evolves into the awareness stage (Trevino, 1986). More judgments are then moderated by the situational and individual context. The context can be influenced by the locus of control, personality(ego), employment conditions, and so on.

Ferrell et al analyze the opportunity to behave unethically and highlight the prevalence (or non-existence) of corporate policy, codes, rewards, and punishment. The authors propose that a feedback loop exists between behavior and the evaluation of behavior (Ferrell, 1985).

Hunt and Vitell built on the work of Ferrell et al by simplifying the models proposed above (Hunt & Vitell, 1986). Their work has a distinct moral awareness ‘bias’ whereby they posit that personal experiences and environmental factors affect the perceptions of an ethical problem. It affects not only the ethical problem but also the perception of alternative actions and consequences. This approach is insightful, particularly regarding South Korea. Hunt and Vitell state that these perceptions affect judgment intention and this behavior. This contribution is important and has resulted in the *sequential* aspect of the four-factor model.

This paper will focus on the first factor, as proposed by Rest (1986) - Moral Awareness - in the model, given the systemic and corporate ethical environments prevalent in South Korea, as discussed above. Rest defines Moral Awareness as ‘*identifying what we can in a particular situation, figuring out what the consequences to all parties would be for each line of action, and identifying and trying to understand our own gut feelings on the matter.*’ While Moral Awareness is an ideological concept that does not necessarily lead to practical ethical decision-making, it is the first step en route to ethical choices since the process is initiated by the realization that a moral situation exists, or principle could be violated. Indeed, Hunt and Vitell propose that an individual ‘*must first perceive a situation to contain an ethical issue or problem before the ethical situation is enacted*’ (Hunt & Vitell, 1986). That is, for decision makers to be morally aware, they must first perceive the decision as a moral one.

Moral awareness is determined by a variety of individual and situational factors. The decision taken by Lee will be briefly discussed in the context of some of these factors. The primary individual factors are as follows:

- **Gender:** It is a common perception that females are more morally aware than men. The empirical studies, however, present mixed results

on this factor (Valentine, 2007). In the Samsung case, of the five arrests, two were female, and the female President was impeached. This is consistent with the empirical results.

- ***Nationality and Culture***: Cherry et al suggest that this factor also produces mixed evidence as a significant determinant of moral awareness (Cherry, Lee, & Chien, 2003). Regarding Samsung, the sheer volume of evidence is overwhelming and includes, pardons, corporate cross-holdings, convictions of the corporate elite and political scandals.
- ***Ethical Experience***: This factor includes those variables that may affect one's experience with ethical dilemmas, most notably religion, age, ethics training, and professional and educational experience. Again, the empirical results appear to be mixed (Singhapakdi, Vitell, & Kraft, 1996). This evidence is consistent with the Lee case, where he was 54 years old and a Harvard graduate. He was also an executive and board member of numerous corporations. He had sufficient exposure to warrant an understanding of ethical behavior.

In addition to the individual variables, the context of decision-making plays an important role in the studies and theoretical models (Treviño, Weaver, & Reynolds, 2006).

The two primary situational factors are:

- ***Issue Intensity***: Jones introduced this variable to the theoretical framework and identified six components of moral intensity that may dictate and are positively correlated to moral awareness (Jones, 1991): *the magnitude of consequences, the concentration of effect, probability*

of effect, temporal immediacy, social consensus, and proximity. Prima facie, the moral intensity of the issue in which the decision is made seems to offer some predictive validity. However, for this to be valid in the context of the Samsung case, Lee would have to have considered the issue intensity to be very low, given the actions he undertook. Thus, for issue intensity to be very low in his opinion, the individual determinants must have been very high to override his perception of issue intensity. He simply did not regard the situation as sufficiently intense to warrant an alternative plan.

- ***Ethical Infrastructure:*** This factor refers to the organizational aspects of corporate climate, systems, surveillance, controls, and sanctioning (Tenbrunsel, Smith-Crowe, & Umphress, 2003). Again, making decisions in this context and within a high level of ethical infrastructure should be very correlated to ethical choice. In the case of Lee, it appears to be the *informal* structures that carried a higher weight in the organizational processes. No doubt, Samsung has policies and procedures, but they were disregarded by Lee and thus the ethical infrastructure, even if robust, failed.

5. The Four Fundamental Ethical Principles

Aside from the four-factor framework for Moral Decision-Making, Jahn proposes four ethical principles that can be applied by an individual (Jahn, 2011):

- Respect for Autonomy (self-determination of others);
- Beneficence (act for the benefit of others);
- Nonmaleficence (not to inflict harm on others); and

- Justice (equitably distribute benefits, risks, and costs).

Lee breached all the above principles. Had Lee simply reviewed the above principles, or merely been subconsciously aware of the generalization of any one of the above principles, he would have chosen a course of action consistent with ethical principles and thus moral choice.

6. Application of Theory to the Ethical Dilemma

Surprisingly, empirical research undertaken over the last 30 years indicates that there are only a few factors that robustly determine ethical choice. In addition, research has presented evidence of a negative correlation between age and ethical conduct. Many of the factors provide a predictable but very weak correlation with ethical choice. This research is important because it supports the development of strong policies, codes, and procedures. The research outcomes provide the 'bottom-line' summary to prevent unethical choice.

Given the above theoretical narrative and in the context of the Lee dilemma, the author would have undertaken a different strategy. Below is a summary of the counteraction proposed:

- **Lee wanted to force a merger urgently.** *Counteraction:* Samsung as a dominant, global and public company with multiple shareholders is complex. Outside and independent specialists (lawyers, bankers, accountants) should be introduced to the problem, and an appropriate independent set of actions would be recommended.
- **Lee operated outside of Board approval.** *Counteraction:* Lee would propose the recommendations and an action plan to the Board.
- **Lee had the goal of enhancing family control and acted deviously to achieve this.** *Counteraction:* Lee should have used his substantial wealth to increase his

stake in the subsidiaries (through the market), thereby acquiring sufficient control to transparently control the merger process, without influencing other shareholders.

- **Lee utilized Samsung funds.** *Counteraction:* Lee should have utilized family funds for the purpose of acquiring greater control.
- **Lee family gained some USD800m in gains from the merger and the NPF lost some USD140m.** *Counteraction:* Lee should have offered the NPF a premium for their shares to acquire their voting rights.

The Counteractions proposed would have been consistent with: Respect for Autonomy (self-determination of others); Beneficence (act for the benefit of others); Nonmaleficence (not to inflict harm on others); and Justice (equitably distribute benefits, risks, and costs). In addition, the simple corporate obligations of Due Care and transparency would have been satisfied.

7. Preventative Action Required

Research points to the following factors that are the most robust in reducing unethical choice: *Ethical Culture, Moral Intensity, and Enforcement*. This the following broad recommendations should be pursued:

- Corporate understanding of ethical issues (Treviño, Brown, & Wall, 2004)
- Management Communication of importance of Ethics (Treviño et al., 2004)
- Transparent and acknowledged reward system for ethical behavior (Bazerman & Tenbrunsel, 2011)
- Promote ethical leadership (Kidwell & Martin, 2005)
- Ensure internal staff understanding and recognition of Moral Intensity (Kish-Gephart et al., 2010)

- Rigorous and transparently enforced Code of conduct (Kish-Gephart et al., 2010)

8. Conclusion

There can be little doubt that country and cultural factors dominate the decision-making in this ethical dilemma. Lee had a choice, and he acted according to what appears to be an environmental norm and has now manifested in an individual amoral characteristic. Even if Lee had acted ethically, but lost control of Samsung and thereby changed his family's future legacy permanently, would the self-acknowledgment of ethical conduct have been sufficient for him? Would it have been upheld in South Korea as the 'new normal' of ethical choice? The turning point in national moral awareness? Or would it simply have been an unrealistic attempt to change the nation's integrity by taking up moral arms and charging against an amorphous entity – national culture. A Don Quixote of Korea.

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