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A governance perspective on moral character development

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Stefan Hielscher, Felix Carl Schultz,
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A Governance perspective on moral character development

Diskussionspapier Nr. 2025-07

des Lehrstuhls für Wirtschaftsethik
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Kurzfassung

Dieser Kurzbeitrag erweitert das „Moral Moments Model“ von Smith et al. um eine Governance-Perspektive. Wir argumentieren, dass Compliance-basierte Kontrollsysteme (CBCSs) die moralische Handlungsfähigkeit durch starre Regeln und geringe Ermessensspielräume einschränken, während Tugend-basierte Kontrollsysteme (VBCSs) Ungewissheit bewusst bewahren, um moralisches Urteilsvermögen und Charakterbildung zu fördern. Am Beispiel von Structured Ethical Debriefings (SEBs) zeigen wir, wie institutionalisierte Nachbesprechungen moralische Momente neu entfachen können, indem sie die Reflexion über ethisch aufgeladene Ereignisse selbst in stark regulierten Umgebungen verankern. Daraus folgen zwei Thesen: (1) Gut gestaltete Governance-Mechanismen können in beiden Systemtypen moralische Momente auslösen. (2) Moralische Charakterbildung ist eine wichtige Herausforderung nicht nur auf der Ebene von Individuen, sondern auch auf der Ebene von Organisationen – insbesondere für Unternehmen, die als Corporate Citizens gesellschaftliche Verantwortung übernehmen wollen.

Schlüsselbegriffe: Moralische Handlungsfähigkeit, moralischer Charakter, moralische Momente, Governance, Tugendethik, strukturierte ethische Nachbesprechung, corporate citizens

JEL: M14, D63, D83, Z13

Abstract

This short contribution extends Smith et al.'s “Moral Moments Model” by adding a governance lens. We contend that compliance-based control systems (CBCSs) confine moral agency through rigid rules and narrow discretion, whereas virtue-based control systems (VBCSs) purposefully preserve uncertainty to nurture moral judgment and character. Using Structured Ethical Debriefings (SEBs) as an illustration, we show how institutionalized debriefings can rekindle moral moments by embedding reflection on ethically charged incidents even within highly regulated environments. Two propositions follow: (1) well-designed governance mechanisms can spark moral moments in either system; and (2) cultivating moral character is a critical challenge not only for individuals but also for organizations—especially for corporate citizens striving to shoulder genuine social responsibility.

Keywords: Moral Agency, Moral Character, Moral Moments, Governance, Virtue Ethics, Structured Ethical Debriefing

JEL: M14, D63, D83, Z13

A Governance perspective on moral character development

Stefan Hielscher, Felix Carl Schultz, Vladislav Valentinov, Ingo Pies*

Smith, DeTienne, Ingerson, and Cherrington (in press) advance our understanding of moral character development through their Moral Moments Model, which explains how workplace experiences activate key agency processes—forethought, self-regulation, and self-reflection—that shape moral character. Their framework emphasizes ethical learning over mere compliance, suggesting that organizational factors are complementary to moral agency. However, many organizations operate within dense webs of regulation or bureaucracy that intentionally constrain individual discretion (Treviño & Weaver, 2003). This raises a critical question: Can the Moral Moments Model be applied meaningfully in regulation-heavy contexts? We expand on Smith et al.'s model by highlighting the—as we argue, underexplored—paradox that *formal governance* processes designed to reduce day-to-day ambiguity may, in retrospect, increase moral ambiguity and shape moral character in ways Smith et al.'s standards do not fully anticipate.

Governance refers to the structured coordination of behaviors through rules, roles, and routines (e.g., Kaptein & Schwartz, 2008; Williamson, 2010). It reveals an important, underdeveloped distinction in Smith et al.'s (in press) model between virtue-based control systems (VBCSs) and compliance-based control systems (CBCSs). This distinction is warranted on both ethical (MacIntyre, 1984; Whetstone, 2001) and empirical grounds (Wang & Hackett, 2020). Regulatory environments with strict liability often drive firms toward CBCSs that emphasize monitoring and sanctions, thereby restricting discretion and limiting space for value-driven systems (Cianci et al., 2021; Weaver, Treviño, & Cochran, 1999).

VBCSs—common in mission-driven nonprofits (Craft, 2018), higher education (Blewitt, Blewitt, & Ryan, 2018), and innovation-intensive firms (Riivari & Lämsä, 2019)—deliberately embrace ambiguity to invite judgment, dialogue, and ethical growth. These systems increase the moral stakes of decisions (Shafer & Simmons, 2011) and curb wrongdoing more effectively (Suh, Shim, & Button, 2018), arguably increasing moral moments. In contrast, CBCSs dominate highly regulated sectors like finance (Hess, 2007), healthcare (McDaniel, 2007), and food (Manning, 2020), relying on standardized rules, third-party audits, and punitive measures. These environments can erode moral discernment and reduce employees' willingness to raise concerns (Forte, 2004), reinforcing procedural adherence rather than thoughtful moral reasoning (Riivari & Lämsä, 2014).

Thus, CBCSs may foster passive obedience, arguably by narrowing the range of moral moments and dampening moral intensity, thereby undermining the capacity to “transcend the dictates of [one's] environment,” as Smith et al. (in press) draw from Bandura (2018: 131). Still, this dichotomy between VBCSs and CBCSs is not absolute. Hybrid organizations—such as large technology firms or sustainability-focused consumer goods producers—often blend compliance with value-based leadership (Paine, 1994). These hybrid

* This short commentary responds to the article by Smith et al. (in press). It was submitted to the Academy of Management Review as a dialogue but, even after several rounds of revision, was ultimately not accepted for publication. Our contribution now appears as a discussion paper because we consider the ideas of Smith et al. important and would like to offer our complementary reflections for academic debate.

systems warrant further study of how *governance* shapes moral agency in ‘*emerging organizational forms*’ (Roy, Newman, Round, & Bhattacharya, 2024).

A promising governance tool in this regard is *structured ethical debriefing (SEB)*. SEBs help demonstrate the need and possibility to institutionalize moral reflection, particularly in CBCS contexts. SEBs encourage employees to reflect on ethically charged events, surfacing tensions between rule adherence and virtue, and prompting the kind of dissonance essential for character development (Festinger, 1957; Reynolds, 2006). Unlike general ethics training or post-mortems, SEBs systematically embed reflection into organizational routines, thereby sustaining moral awareness even under heavy regulation.

Serving as just one governance example, SEBs highlight three interrelated and critical aspects that extend Smith et al.’s (in press) argument: (1) the distinction between governance and other organizational factors; (2) whether CBCSs inherently suppress moral moments; and (3) what enables organizations to implement governance mechanisms that support moral agency despite regulatory pressures.

First, while Smith et al. (in press) rightly emphasize culture and leadership (cf. Treviño, 1986), governance mechanisms bring unique affordances and tensions. Governance can act as either scaffolding—supporting agency—or as a stifling force that codifies behaviors and reduces discretion—crowding out agency and virtue formation (Kish-Gephart, Harrison & Treviño, 2010). SEBs exemplify scaffolding: they institutionalize moral reflection, reveal gaps between rules and values, and sustain the internal processes central to the Moral Moments Model. This aspect remains underdeveloped in Smith et al.’s analysis.

Second, CBCSs often minimize space for discretionary decision-making. With standardized checklists prescribing correct behavior (Ouchi, 1979), employees face fewer gray areas to navigate, arguably reducing moral agency. Still, CBCSs can inadvertently create moral moments—through ambiguous cases, contradictory rules, or unforeseen consequences. These moments, however, are typically experienced only in hindsight and require dedicated mechanisms like SEBs to be meaningfully processed. SEBs reinject productive ambiguity, inviting employees to ask: “Was this the right action morally, or just the required one?” This deepens forethought and reflection and fosters moral identity (Brown, Treviño, & Harrison, 2005). Yet, organizations must intentionally create moral moments—through structured debriefings and other governance processes—that prompt employees to consider ethical nuances beyond mere regulatory compliance.

Third, the adoption of SEBs and similar mechanisms is likely shaped by how organizations perceive their societal role. We posit that *passive rule-takers* are less likely to foster reflective practices, while organizations that see themselves as *active rule-makers* in the global governance landscape (Scherer & Palazzo, 2007) are more motivated and better positioned to institutionalize mechanisms that promote ethical deliberation. The self-perception of an organization may directly impact whether moral agency is nurtured or suppressed.

In sum, we propose two complementary propositions. First, governance mechanisms can foster moral moments across both VBCSs and CBCSs, bridging compliance and moral agency. The effectiveness of these mechanisms depends on whether the organization views itself as a passive follower or an active participant in rule-making. Second, cultivating moral character must be understood not only at the individual level but also at the organizational level. Companies committed to societal leadership must develop and maintain internal integrity through governance practices that reinforce ethical agency.

Echoing the ancient belief that civic virtue is a prerequisite for public responsibility (Pies, Beckmann, & Hielscher, 2014), we argue that only organizations with genuine integrity can credibly fulfill their role as corporate citizens.

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