

Individual Reactions To Organizational Ethical Failures And Recovery Attempts: A Recovery Paradox?

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INDIVIDUAL REACTIONS TO ORGANIZATIONAL ETHICAL FAILURES
AND RECOVERY ATTEMPTS: A RECOVERY PARADOX?

By

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A dissertation submitted in partial fulfillment of the requirements
for the degree of Doctor of Philosophy
in the Management Department
in the College of Business
at the University of Central Florida
Orlando, Florida

Spring Semester
2008

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ABSTRACT

The vast majority of behavioral ethical research focuses on the *antecedents* of unethical behavior. Consequently, questions involving the *consequences* of organizational unethical behavior remain largely unanswered. Therefore, extant business ethics research largely neglects the impacts of organizational unethical behavior on individuals. Moreover, questions involving what organizations can do to correct or recover from having engaged in unethical behavior as well as individual responses to those efforts are also mostly ignored. Therefore, the purpose of this study is to investigate the impact of unethical activity on employees and explore organizations that have failed ethically and their attempts at recovery. This study explores two issues. First, how do employees react to organizational unethical behavior (OUB) and to what extent are those reactions dependent on contextual and individual factors? Second, to what extent can organizations recover from the negative impacts of ethical failure? More specifically, is it possible for organizations that fail in their ethical responsibilities to recover such that they are paradoxically “better-off” than their counterparts that never failed in the first place? To explore these issues I review, integrate and draw upon the ethical decision-making and service failure recovery literatures for theoretical support. Empirical testing included two studies. The first was a field study using survey data acquired from the Ethics Resource Center (ERC) in which over 29,000 participants were asked about their perceptions of ethics at work. Second, a supplemental field study was conducted in which 100 employees rated the characteristics of unethical acts (e.g. severity). Results revealed a negative direct effect of severity and controllability of the OUB on perceptions of organizational ethicality and a negative direct effect

of controllability of the OUB on organizational satisfaction. Ethical context moderated the relationship between OUB controllability and perceived organizational ethicality. Partial support was found for the moderating effects of ethical context on the relationship between OUB severity and perceived organizational ethicality. Results also supported an ethical failure recovery paradox.

AKNOWLEDGEMENTS

The author would like to acknowledge the support from the Ethics Resource Center which provided the majority of the field study data. All items supplied by the ERC used for scale development and measures are copyrighted and are used through special permission from the author. © Ethics Resource Center, All Rights Reserved, No reproduction, display or distribution of the Survey Questions is permitted.

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INTRODUCTION

Scholarly research in business ethics is growing at a notable rate. Tenbrunsel and Smith-Crowe (2008) noted a 195 percent increase so far this decade in the total number of articles on the topic compared with the number of articles published in the 1990's. This growth follows a 196 percent increase over those published in the 1980's. A review of the behavioral ethics literature reveals an interesting feature; most of the literature focuses on the causes and not the consequences of unethical behavior. However, related domains, such as organizational justice, have well documented the consequences of a variety of organizational actions. Although behavioral ethics and organizational justice have taken two separate approaches to the idea of good and bad behaviors, the field of behavioral ethics could possibly gain a great deal from adopting an outcome-focused approach in looking at the impact of unethical acts that take place within organizations on individuals.

In their review of the behavioral ethics literature, Treviño, Weaver, and Reynolds (2006) confirmed that much of the attention has been placed on the *antecedents* of unethical behavior. As a result, questions involving the *consequences* of unethical behavior remain largely unanswered. Therefore, the extant behavioral ethics research largely neglects the impact of organizational unethical behavior on individuals. As a result, questions involving what organizations can do to correct or make restitution for having engaged in unethical behavior as well as individual responses to those efforts are also largely ignored. The dearth of inquiry into organizations that have failed ethically, the attempts by those organizations to recover and the impact on individual perceptions provides a fertile ground for inquiry.

Therefore, the purpose of this dissertation is to explore two issues about individuals' reactions to organizational unethical behavior (OUB) and subsequently, the organization's ability to cope with those reactions. The first issue that will be addressed is "How do individuals react to organizational unethical behavior and to what degree are those reactions dependent on contextual and individual factors?" The second issue asks, "To what extent can organizations recover from the negative impacts of ethical failure; are organizations that fail in their ethical responsibilities and successfully recover better-off than those that never failed in the first place?" In other words, does what is known in the service literature as the "Service Recovery Paradox" hold in an ethical context? The service-recovery literature describes a paradoxical situation wherein firms that fail in their service delivery efforts, but successfully recover from those failures, have more favorable customer perceptions than had they not failed in the first place. What follows is a closer investigation of each research issue and a response to the call to investigate the consequences of unethical behavior (Treviño et al., 2006).

ETHICAL DECISION-MAKING REVIEW

Before addressing the consequences of unethical behavior in the workplace, it is important to outline and review the prominent theoretical frameworks that are currently used in the behavioral ethics literature, including some of the most recent theoretical contributions. What follows is a review of three prominent ethical decision-making frameworks (Jones, 1991; Rest, 1986; and Treviño, 1986) that have served as the focus of the majority of the empirical studies done in behavioral ethics. After reviewing the models, a brief review of the empirical evidence that has surfaced based on these models will be provided. The focus will then turn to a more contemporary model of ethical decision making (Tenbrunsel & Smith-Crowe, 2008) and then a model of reintegration posited by Pfarrer, Decelles, Smith, and Taylor (2008), which provides a normative framework for organizations as they attempt to make restitution with their stakeholders after “the fall.”

Current Theoretical Models

Three theoretical frameworks for ethical decision making in the behavioral ethics literature have helped foster an increasing amount of empirical research on the topic. These models each have provided important insights into the ethical decision-making process and are the predominant theoretical basis for most of the ethical decision-making literature.

Four Psychological Components Determining Moral Behavior - Rest 1986

Rest's four-component model was formulated as an expansion to what at the time was a theoretical focus on moral judgment. Prevailing moral theories such as Kohlberg's (1976) six-stage concept of cooperation placed the main theoretical focus on cognitive-developmental approaches to morality. However, much of the morality literature was examining social learning, behavioristic, psychoanalytic, and social psychological approaches to morality (Rest, 1983).

The result of Rest's synthesis of moral psychological research was the development of a four-component model depicting the underlying components of moral behavior. Although Rest does not suggest that the number four is necessarily crucial (it could be broken down into more components), he does mention that *at least* four distinct components conceptually emerge in his theory. Rest suggests that the model starts with the question, "What must we suppose happens psychologically in order for moral behavior to take place?" (Rest, 1994, p. 23), and the ensuing cognitive process is briefly described as follows:

- *Moral sensitivity* is defined as interpreting the situation as moral and how our actions affect others.
- *Moral judgment* is considered to be the process of judging which action is most justified.
- *Moral motivation* describes the prioritization of moral values relative to other values.
- *Moral character* includes the concepts of courage, persistence, overcoming distractions to construct and implement a plan of action.

All four components are viewed as antecedents to moral action, and Rest claims that moral failure can result from deficiency in any of them (Rest, 1994).

Person-Situation Interactionist Model - Treviño 1986

Contemporaneous to Rest's work, Treviño (1986) proposed a model that was also partly based on Kohlberg's cognitive moral development model. Treviño focused, however, on ethical decision making specifically within the organization. Treviño identified in the literature at the time, a bi-thematic approach to the study of ethical decision making, specifically, the focus on either the individual role or the situational variables in predicting ethical or unethical behavior. Treviño noted, however, that neither approach addressed the complex interactions among the individual and situational predictors. Thus, to this end Treviño proposed the interactionist model. The model suggests that the *interaction* of individual and situational components will predict ethical decision making in organizations.

The interactionist model not only includes antecedents of unethical behavior but also describes conditions under which those relationships hold. It states that the *cognitive moral-development stage* of the individual will determine how one views an ethical dilemma. *Cognitive moral development*, in turn is an antecedent to *ethical/ unethical behavior*. However, the theory states that cognitions of what is right and wrong alone are insufficient in predicting ethical/ unethical behavior; rather situational and individual variables moderate that relationship. In addition to a moderated relationship, a direct relationship between *situational moderators* and *cognitive moral-development stage* is proposed. Treviño (1986) proposed the following moderators in the model:

Individual Moderators

- *Ego strength* – strength of conviction or self regulating skills
- *Field dependence* – extent to which an individual is dependent on referents to provide them information in ambiguous situations
- *Locus of control* – an individual’s perception of how much control they exert over events in their lives

Situational Moderators

Immediate Job Context

- *Reinforcement* – clarity on the part of the organization as to which behaviors are rewarded or punished
- *Other pressures* – such as personal costs

Organizational Culture

- *Normative structure* – collective norms that guide moral behavior
- *Referent others* – the extent to which perceptions of peers’ actions influence ethical behavior
- *Obedience to authority* – the extent to which legitimate authority is accepted as a tenet of the work setting
- *Responsibility for consequences* – whether the consequences for actions are individually held or diffused

Characteristics of the Work

- *Role taking* – taking others’ perspectives into account
- *Resolution of moral conflict* – the extent to which an individual is held responsible for the frequent resolution of moral conflict

Treviño’s inductively driven model provided a typology for understanding how people make ethical decisions in organizations and was based on the empirically supported work of Kohlberg’s cognitive moral-development model (Treviño, 1986). By introducing boundary conditions under which some of the predicted relationships would exist, Treviño laid the groundwork for further maturation of the literature by lending strong theoretical support to moderated empirical models.

An Issue-Contingent Model – Jones 1991

In the issue contingent model, Jones (1991) suggested that extant models of individual ethical decision making had ignored the characteristics of the ethical issue itself. Jones therefore proposed a model that addressed specifically the moral intensity of an ethical issue and suggested that it can explain variance in moral processes as both an independent and moderating variable. He clarified that the theory is intended to be supplemental to existing theories, not competing.

The theory posits that moral decision making and behavior processes are not identical for all moral issues, thus making them issue-contingent. Drawing on social psychology and normative arguments of moral philosophy, Jones (1991) constructed a six-component model of *moral intensity* and argued that these six characteristics of a moral issue will be positively related

to each of the four components of Rest's (1986) ethical decision-making/behavior process. Next, organizational factors as adopted by Treviño's model are added. Jones further proposes relationships between the organizational/situational factors and the last two components of Rest's model – specifically, *establish moral intent* (moral motivation) and *engage in moral behavior* (moral character). The components of the construct of *moral intensity* are briefly described as follows (Jones, 1991):

Components of *Moral Intensity*

- *Magnitude of consequences* – the sum of the harms (or benefits) done to victims (or beneficiaries) of the moral act in question.
- *Social consensus* – the degree of social agreement that a proposed act is evil (or good)
- *Probability of effect* – a function of the probability that the act in question will actually take place and that it will actually cause the harm (benefit) predicted.
- *Temporal immediacy* – the length of time between the present and the onset of consequences of the moral act in question
- *Proximity* – feeling of nearness (social, cultural, psychological or physical) that the moral agent has for victims (beneficiaries) of the evil (beneficial) act in question.
- *Concentration of effect* – inverse function of the number of people affected by an act of given magnitude

Collectively, these characteristics were referred to as moral intensity. When evaluating this theoretical model with the others mentioned thus far, it is important to note that individual traits of the decision maker and some organizational factors, such as culture, are not included in the

construct of moral intensity. Hence, the model addresses the *issue* and neither the *agent* nor the organizational *context* (Jones, 1991).

Current Empirical Findings

What follows is a brief review of the empirical findings in ethical decision-making literature. Each of the four components of Rest's (1986) model will serve as the primary structure for this review. It is so structured partly due to Rest's substantial contribution to the field, but more importantly, it is conducive to the other two other theoretical frameworks provided by Treviño (1986) and Jones (1991). Both theories claim to map onto Rest's model to some extent.

Although the evidence in support of these relationships is encouraging, it is important to note that the empirical results in many cases are mixed. In some instances the mixed results are a question of significance or lack thereof. In more extreme cases I notice contradictory findings. An investigation of various study elements (e.g., theoretical grounding, design, construct definitions, scale development, interaction effects and other, methodological choices) would be a fruitful exercise and shed light on these confounds. I reserve such detailed discussions for future research. For the purposes of this study I will focus on a general review of the relationships found in the studies.

I mention a final item with respect to the scope of this review, (the majority of the review will focus on more recent published findings). In a review of the ethical decision-making literature, O'Fallon and Butterfield (2005) noted that more empirical articles on ethical decision

making have been published in the 7 years (between 1996 and 2003) than had been published in the previous four decades combined. Following their logic (viz., that by so doing they were able to accumulate sufficient evidence for the current state of the literature, its strengths and weaknesses, trends and future directions), I too, sense that focusing the majority of my review on the empirical evidence from the organizational literature that has been published most recently (1996 through 2008) would be sufficient for the purposes of the current study.

Moral sensitivity (Awareness)

Studies have found a variety of individual factors that correlate with moral sensitivity, which is also often referred to as moral awareness. Karcher (1996) found that age was positively correlated with awareness. Gender was also found to be correlated (Ameen, Guffey, & McMillan, 1996; Singhapadki, Rao, & Vitell, 1996), showing higher levels of awareness in females than in males. A relationship between nationality/culture and awareness (Cherry, Lee & Chien, 2003; Singhapadki, Karande, Rao, & Vitell, 2001) has been found, indicating that Americans tend to have higher levels of awareness than their respective Taiwanese and Australian counter parts. Singhapadki et al. (1996) found evidence of a correlation between professionalism and awareness. Additional individual factors such as job satisfaction, professional commitment, role conflict, relativism (Yetmar & Eastman, 2000), as well as ethical predispositions (utilitarian and formalistic ideals) (Reynolds, 2006), have also been noted as having a relationship with awareness.

Contextual antecedents suggested by the evidence include the moral intensity of the issue (Singhapadki, Vitell & Kraft, 1996; Barnett & Valentine, 2002) and organizational factors such

as competitive practices, moral language (Butterfield, Treviño, & Weaver, 2000), ethics-program orientations (value and compliance) (Weaver & Treviño, 1999), ethical work climate (VanSandt, 2003) and training (Sparks & Hunt, 1998).

Moral judgment

The extant empirical research suggests various personal and contextual antecedents to moral judgment or moral reasoning. Wimalasiri, Pavri and Jalil (1996) and Kracher, Chatterjee and Lundquist (2002) both found a significant relationship between age and moral judgment. Gender was also found to have an effect on moral judgment, but the results are mixed, with some studies indicating that women make more ethical judgments (Eynon, Hill & Stevens, 1997; Fleishman & Valentine, 2003; Reiss & Mitra, 1998; Tse & Au, 1997) and others finding that men do (Weeks, Moore, McKinney, & Longenecker, 1999). Another common demographic characteristic found to be correlated was education level (Rest et al, 1986; Kracher et al., 2002). Individual perception factors such as locus of control and risk perception (Cherry & Fraedrich, 2000), moral awareness (Singhapadki, Vitell, & Kraft, 1996), hindsight bias (Sligo & Stirton, 1998) and perceived issue importance (Robin, Reidenbach, & Forrest, 1996) were found to be related to moral judgment. Other individual factors found to have a significant relationship to moral judgment included Machiavellianism (Bass, Barnett, & Brown, 1999), nationality (Armstrong, 1996), need for cognition (Boyle, Dahlstrom, & Kellaris, 1998), stances on relativism and idealism (Davis, Anderson, & Curtis, 2001; Henle, Giacalone, & Jurkiewicz, 2005), intelligence and personality type (Rayburn & Rayburn, 1996), value orientation (Harrington, 1997), spirituality (Giacalone & Jurkiewicz, 2003), and religion (Tse & Au, 1997).

Some situational or contextual factors that were found to be related to moral judgment include moral intensity (Frey, 2000; Valentine & Fleishman, 2003), organizational codes of ethics, (Adams, Taschian, & Shore, 2001), ethical climate, internal communication (Verbeke, Uwerkerk, & Peelen, 1996), external environment (Christie, Kwon, Stoeberl, & Baumhart, 2003), industry type (Waller, 2002), organizational culture (Razique & Hwee, 2002), sanctioning systems (Tenbrunsel & Messick, 1999), training (Eynon et al., 1997), leader moral reasoning (Dukerich et al. 2000), and work versus non-work dilemmas (Weber & Wasieleski, 2001).

Moral motivation

Evidence for correlates to personal and contextual antecedents of moral motivation or intent is not as ample as it is for other stages of the ethical decision-making process. It is not surprising to note that ethical awareness (Singhapakdi, Vitell, & Franke, 1999; Singhapakdi, Salyachivin, Viraku, & Veerayangkur, 2000) and ethical judgment (Barnett, 2001) have been found to be correlated with moral motivation. Other individual correlates include gender (Cohen, Pant, & Sharp, 2001; Singhapakdi et al., 1999; Valentine & Rittenburg, 2007), nationality (Cherry et al. 2003), moral identity (Reed & Aquino, 2003), locus of control, risk perceptions (Cherry & Fraedrich, 2000; 2002), Machiavellianism (Jones & Kavanagh, 1996), attitude toward unethical behavior (Flannery & May, 2000), cynicism (Andersson & Bateman, 1997; Beams, Brown, & Killough, 2003), deontological and teleological considerations (DeConinck & Lewis, 1997), equity and contractualism (Cruz, Shafer, & Strawser, 2000), guilt (Beams, Brown & Killough, 2003), relativism (Sivades, Kleiser, Kellaris & Dahlstrom, 2003),

religion (Singhapakdi, Marta, Rallapalli, & Rao, 2000), moral intensity (Paolillo & Vitell, 2002), and favorable social outcomes (Glass & Wood, 1996). Other contextual correlates include employment (Cohen, Pant, & Sharp, 2001), quality of work experience and peer and managerial influence (Jones & Kavanagh, 1996), instrumental climate, subjective norms, and ethical climate (Flannery & May, 2000), ethics training (Eynon et al., 1997).

Moral character

Personal and contextual factors that have been found to predict moral character or behavior are as follows: age (Ross & Robertson, 2003), awareness (Fleishman & Valentine, 2003), moral development (Greenberg, 2002; Ashkanasy, Windsor & Treviño, 2006), CEO tenure (Chavez, Wiggins & Yolas 2001), compensation structure (Honeycutt, Glassman, Zugelder, & Karande, 2001), gender (Ross & Robertson, 2003), locus of control (Hegarty, & Sims, 1978; Forte, 2005), intent to engage in unethical behavior (Wagner & Sanders, 2001), self-regulatory capacity (Eisenberg, 2000), nationality (Kennedy & Lawton, 1996), competitiveness (Sankaran & Bui, 2003), economic well being (Hoffman, Couch & Lamont, 1998), love of money (Tang & Chiu, 2003), Machiavellianism, (Ross & Robertson, 2003), religiosity (Kennedy & Lawton, 1996), moral identity (Reed & Aquino, 2003), role conflict (Grover, 1997), perceived supervisor expectations (Sims and Keon, 1999), top management attitude (Jackson, 2000), moral intensity (Valentine & Fleishman, 2003), business competitiveness, pressure to act unethically (Robertson & Raymon, 2001), unmet organizationally defined goals (Schwietzer, Ordonez & Douma, 2004), codes of ethics (Weaver & Treviño, 1999, 2001; Greenberg, 2002), ethical climate (Fritzsche, 2000; Cullen, Victor, & Bronson, 1993), ethical culture (Treviño, Butterfield

& McCabe, 1998), external environment (Hunt & Jennings, 1997), industry (Oz, 2001), opportunity (Shafer, 2002), organizational climate (Vardi, 2001), organizational size (Bartels, Harrick, Martell, & Strickland, 1998), fairness (Treviño & Weaver, 2001), sanctioning systems (Tenbrunsel & Messick, 1999), rewards and incentives (Ashkanasy et al., 2006), leadership and reward systems (Treviño, Weaver, Gibson, & Toffler, 1999).; Treviño & Brown, 2004), open discussion of ethics, obedience norms (Treviño et al. 1999), and moral muteness (Bird, 1996).

Current issues in the literature

As mentioned previously, the findings of empirical studies in ethical decision making are mixed, some finding positive relationships between the variables, some none, and still others a negative relationship. This troublesome trend is an outgrowth of multiple issues.

The first issue is the lack of precision in construct definition. With respect to measures of moral awareness, for example, Treviño et al. (2006) noted their imprecision, commenting that such measures often require identification of an ethical miscue or violation, and that it could be argued that such determinations possibly confound moral awareness with moral judgment (Reynolds, 2006). Other components are also fraught with examples of imprecision (i.e., construct definitions are methodologically induced). For example, confounds between motivation and behavior are evident in using scenarios, in that there is uncertainty as to whether behavioral intent is being measured (O'Fallon & Butterfield, 2005). Further examples of confusion are manifest when comparing Treviño's (1986) model (wherein the constructs of ethical-decision making and ethical behavior are at times used interchangeably) with Rest's

(1986) model. It could be argued that deciding to do something (ethical-decision making) and actually doing it (ethical behavior) is not necessarily the same thing.

When discussing models, it is important to note that some scholars submit that like other decision-making processes, the ethical decision-making process is not necessarily a linear, rational process. Following Cohen, March and Olsen's (1972) garbage can model to decision making, Schminke (1998) suggests a similar integrative approach to modeling the ethical decision-making process. Schminke (1998) proposes a "magic punchbowl" in which "chaotic organizational forces may produce ethical decisions" (p.207). The four component model suggested by Rest (1986) however, is a good starting point. As further development and integration of models proceeds, the literature would benefit from greater care and precision with respect to the construct definitions, within the four-component model as well as those presented by others (e.g. Treviño, 1986; Jones, 1991).

As was mentioned previously, methodological concerns are another element that could potentially contribute to the disparity of results and could warrant future research. In a call for more rigorous research methods, Treviño (2006) suggested the need for multistage and multi-informant elements in study design in order to increase confidence in research results. Although there is much debate in the literature about the appropriateness of student samples and scenario methods, the field would benefit regardless from the use of more field studies, simulations, and lab experiments. According to the review conducted by O'Fallon and Butterfield (2005) very few studies have taken this route. Due to the sensitive nature of ethical data, the low reported frequency rates and various response biases, it is understandable that researchers rely on easily obtainable student samples and scenario methodology. Future methodological directions for

researchers will need to directly address the challenge of finding creative ways by which to measure ethical/unethical behavior (e.g. Greenberg, 1990; 1993).

In addition to imprecisely defined constructs and methodological challenges, a third issue that deserves consideration is the conditions under which many of these relationships hold. Most of the empirical studies reviewed concerning Rest's (1986) model considered exclusively the direct effect of the antecedent on an ethical decision-making component. The inconsistent findings might possibly be explained by moderating variables. Treviño (1986) and Jones (1991) introduce moderating personal, situational, and issue-related characteristics that have been shown to influence aspects of ethical decision making. Some empirical research has begun to find support for these interaction effects; however, more is needed in an effort to buttress the validity of the findings. Further consideration should also be given to modeling and testing interactions among the model components. By doing so, we can advance our understanding of the ethical decision-making process and better determine the strengths and limitations of current models in the literature.

Emerging Theoretical Models

Although the burgeoning trend of increased research in behavioral ethics is encouraging, the previous empirical review demonstrates some unsettling trends in the behavioral ethics literature. As was mentioned earlier, the empirical review consisted of only those studies in which a significant relationship was determined to exist between the factor and model component. A great number of studies were not included in the review because they lacked

empirical support for the relationship. Not only do I find irregular support for some of the relationships, but in some extreme cases I see complete sign-reversals or contradictions. For example, the relationship between gender and moral judgment seems to suggest that females tend to have higher levels of moral judgment according to some studies (e.g. Eynon et al., 1997) yet according to others, males do (e.g. Weeks et al., 1999).

The empirical literature is somewhat troubling in that although some relationships are strong, collectively the extant research does not provide a solid nomological foundation for the field. This has led some scholars to conclude that we still know very little about the ethical decision-making process and that in order for the field of behavioral ethics to mature, there is an increasing need to add to the small number of theoretical models (Tenbrunsel and Smith-Crowe, 2008). In their efforts to move the field forward, Pfarrer et al. (2008), along with Tenbrunsel and Smith-Crowe (2008), provide new theoretical frameworks that provide opportunities for further empirical research.

Model of Ethical Decision Making – Tenbrunsel & Smith-Crowe 2008

Breaking from traditional practices in model development, Tenbrunsel and Smith-Crowe (2008) present a model that is concerned less with confirming, expanding or comparing with existing theoretical models and more focused on providing a framework that inductively arose from the available data. Their review of the extant data produced the model depicted in *Figure 1*. In their review they discovered three key components to the ethical decision-making process: moral awareness, moral decision making, and amoral decision making. Although on the surface

this model seems to have considerable overlap with that of Rest (1986), a closer look reveals three unique characteristics. First, as was mentioned earlier, the author induces this framework without any a priori theoretical frameworks. Second, they consider the decision frames of the decision maker, more specifically the kind of situation in which decision makers feel they have been placed. Decision makers can be affected by a variety of frames (e.g., business, legal, and moral), and to the extent that the moral frame has influence, the decision maker will perceive the decision to be a moral decision. If, however, a frame other than moral exerts influence on the decision maker, then decision makers will not be morally aware. The third and possibly most important contribution made by the Tenbrunsel and Smith-Crowe's (2008) framework is that they include amoral decision making in tandem with moral decision making. They argue that although moral awareness is important, it is not a prerequisite to an ethical outcome. A decision that begins with an amoral frame (e.g. business) in which there is no moral awareness, for example, can still lead to a moral decision. The implication of this subtle but important distinction is that when making decisions, whether the decision has ethical ramifications is something of which they may or may not be aware (Tenbrunsel & Smith-Crowe, 2008).

Insert *Figure 1*

Reintegration Model – Pfarrer et al. (2008)

Pfarrer et al. (2008) provides the first framework that not only looks at the consequences of unethical behaviors but also provides a stakeholder driven model of a four-stage process by which organizations can potentially recover from a transgression in the eyes of their stakeholders. The premise is that the offending organization structures its actions according to the dynamic demands of its stakeholders as it moves through the four different stages.

The first stage is defined as *discovery*, in which the facts of the transgression or misbehavior are exposed and the question of “What happened?” is demanded by the stakeholders. Drawing on image management and voluntary disclosure literatures, Pfarrer et al. (2008) propose that once stakeholders are satisfied that they have been provided all relevant facts the organization can then progress to the explanation phase.

In the *explanation* phase the organization attempts to address “Why did it happen?” If organizations can provide appropriate explanations, organizational justice research suggests that organizations can help ease negative reactions such as disapproval about the initial transgression and can increase perceptions of trustworthiness (e.g. Bies, Shapiro, & Cummings, 1988; Shapiro, 1991). Moreover, appropriate explanations have the potential to attract sympathy through personification of the organization and reaffirmation that the organization has learned its lesson (Ashforth & Gibbs, 1990).

Once the organization has successfully addressed the stakeholder’s concerns of “Why?” the organization then moves to the third phase of *penance*. Drawing on organizational justice, forgiveness, equity theory, and shaming theory, the authors suggest that in this phase the stakeholders focus on the question of “How should the organization be punished?” If the

organization responds by accepting the verdict as equitable and without resistance, the stakeholders will perceive that the organization has learned its lesson, intends to change its actions in the future, and now intends to be good (Ashforth & Gibbs, 1990; Shapiro, 1991).

The final stage of *rehabilitation* occurs as stakeholders migrate to the question of “What changes have been made in the organization to keep it from happening again?” The focus during this stage is on the congruency between internal changes and external actions. That is, that the internal systems, structures and processes that were changed for internal stakeholders are manifested in the outward actions (e.g., charitable giving and corporate social-responsibility measures) of the organization to the satisfaction of the salient stakeholders.

With their reintegrating model, Pfarrer et al. (2008) echo the call by Treviño et al. (2006) for research that explores the consequences of unethical behaviors. Although this normative theoretical framework provides an endorsement and to some extent a theoretical launching point for the premise of the current study, a body of empirical evidence in support of this framework is (to the best of the author’s knowledge), non-existent. Therefore, a broader view of similar questions in other literatures is warranted. Again, the two issues that this study attempts to address are the following: (a) What are employee reactions to organizational unethical behaviors? (b) To what extent can an organization recover once they have failed ethically?

Although the Pfarrer et al. (2008) model provides a theoretical framework for organizations trying to recover in the eyes of their stakeholders to a level that they were at previously, it says nothing about just how far that recovery can go – thus leaving the question unanswered of whether they are better off than they had been had they never failed in the first

place. To address this issue, I turn to a parallel body of research in the service recovery literature that provides further insight and overlaps with many of the above-outlined models.

SERVICE FAILURE RECOVERY REVIEW

Over the past decade, the popular press has provided many examples of the negative impact of organizational wrong-doing. Those organizations that have stumbled, as well as their stakeholders, might wonder whether there is any way by which the organization can recover and just how far they are able to do so. As mentioned previously, the service-recovery literature suggests some answers to the ethical-failure recovery question. Specifically, researchers have investigated how organizations bounce back from service failures. Results from numerous studies have implications regarding actions that organizations might take in order to recover successfully from service failures (Kelley, Hoffman, & Davis, 1993; Smith, Bolton, & Wagner, 1999). Furthermore, some scholars even suggest that not only can organizations recover from a service failure but that those organizations that stumble and make a successful recovery garner higher ratings of customer satisfaction than those organizations that never stumbled in the first place. This phenomenon of post-failure customer satisfaction levels exceeding pre-failure customer satisfaction levels is referred to as the *service recovery paradox* (Maxham, 2001; Smith & Bolton, 1998). It represents a paradox in that it suggests that organizations that fail on the service front and recover may be viewed more favorably than those that do not fail to in the first place.

Service recovery is a concept used frequently in service industries such as hospitality and is considered a key determinant of customer satisfaction and loyalty (Magnini, Ford, Markowski, & Honeycutt, 2004). An organization's ability to deal effectively with a service failure is so critical that it is argued by some researchers that how a failure is handled is more important than even the failure itself (cf. Hart, Heskett & Sasser, 1990; McCollough, Berry, & Yadav, 2000;

McCollogh & Bharadwaj, 1992; McDougall & Levesque, 1998; Smith & Bolton, 1998; Tax, Brown, & Chandrashekar, 1998).

First coined by McCollogh and Bharadwaj (1992), the *service recovery paradox* (SRP) has been a point of dispute in the service recovery literature primarily because empirical testing of the SRP has produced mixed results. Although some studies have found evidence to support the SRP (e.g. Hocutt, Bowers & Donovan, 2006; Maxham & Netemeyer, 2002) others have found no such support (e.g. Hocutt, Chakraborty, & Mown, 1997; Maxham, 2001). The results of these studies varied considerably with respect to statistical significance, magnitude and even direction (Matos, Henrique & Rossi, 2007). In an effort to bring closure to the debate as to whether the SRP was a myth or a real phenomenon, Matos et al. (2007) conducted a meta-analysis in which they reported that the presence of a successful service recovery indeed had a significant positive cumulative mean effect on customer satisfaction. The results for repurchase intentions, word of mouth and corporate image, however, were nonsignificant. Other findings of interest included some methodological and contextual moderators. They discovered that design (cross-sectional versus longitudinal) and type of respondent (student versus nonstudent) mattered. More specifically, longitudinal studies provided stronger support for an SRP showing successful recovery effects on satisfaction. In addition the difference between longitudinal and cross-sectional was higher in studies conducted with student participants than with non-student respondents. These results indicate a potential three-way interaction that the author made no attempt to interpret. In general, studies using student samples were more likely to support the notion of a SRP. A final contextual moderator, the service category (hotel, restaurant and others), moderated the effect of a successful recovery on satisfaction. Studies conducted in

hotels showed higher levels of support for an SRP than other studies conducted in other service categories when measuring satisfaction.

Although the body of SRP literature is relatively small, it has begun to mature. Questions beyond the effects of simple antecedence are being asked. Moderators are being considered in various studies, including meta-analyses. Consequently our understanding of the conditions under which the service failure recovery holds has increased. Matos et al. (2007) offered moderating variables through their meta-analysis. In addition, Mangini et al. (2007) addressed the discrepancies in the literature by positing theoretically derived moderators that would have an effect on the relationship between a service recovery effort and the recovery paradox. In their study they found support for four additional moderators: the degree of severity of the failure, the stability of cause of the failure, existence of a prior failure, and level of control that the company had over the existence of the failure.

Although these recent studies will most likely not put to rest the debate on whether the service recovery paradox really occurs, moderated effects of this magnitude can help explain many of the mixed findings that have puzzled researchers for the past decade or so. What follows is a review of the failure recovery paradox literature in which I provide an examination of the samples, methods, and results of the conflicting studies in the current literature and their results.

Studies not finding support for the service recovery paradox

Berry, Zeithaml, and Parasuraman, (1990) surveyed customers (N=1,936) from diverse industries and used a between-subjects design. To determine whether there was a paradox they

conducted a means analysis. They concluded that the absence of a service problem is preferred to having a service problem and attempting to recover.

Halstead and Page (1992) looked at the effects of satisfaction and complaining behavior on consumer repurchase intentions. They surveyed carpet buyers and used a between subjects analysis of variance to test their hypotheses. Results indicated that repurchase intentions for customers who were satisfied and didn't complain was higher than for those customers who were satisfied with the handling of the complaint.

Brown, Cowels, and Tuten (1996), noted in their study that the emphasis in the services marketing literature and consumer research literature was increasingly focused on understating the role of service recovery efforts. To test whether a paradox occurred they surveyed customers in four different industries (N=1009-3069) and used a between-subjects design. They tested their hypotheses using regression and analysis of variance. Results from the analysis indicated that service recovery had a positive impact on the service encounter; however, reliability was important for long-term success.

Bolton (1998) conducted a longitudinal study of cell-phone users (N=599) and used a within-subjects design. They used proportional-hazards regression for testing. Results indicated that customers who experienced gains in perceived satisfaction during the service encounter did not have longer duration times regardless of how satisfied they were with how the encounter was handled.

McCollough, Berry, and Yadav (2000), created scenarios and administered the surveys to passengers in an airport (N=615). They used a within-subjects design and analyzed their results using Lisrel, analysis of variance and analysis of co-variance. Overall satisfaction was

consistently lower for those customers who had experienced a service failure than for those who had experienced no failure, no matter what the recovery effort. Results also indicated that satisfaction judgments varied by severity of the failure. They utilized a disconfirmation framework in which a negative disconfirmation is described as a double negative effect (service failure is followed by failed recovery). Results indicated that perceived harm interacted with recovery effort to influence customer transaction-based satisfaction.

Looking to see if customers held a grudge, Andreassen (2001) conducted telephone interviews in various industries covering a broad spectrum of service encounters. Participants (N=822) self-selected into the respondent pool. Results indicated that excellent recovery efforts helped to restore the company's intent and image, but not in raising satisfaction to levels at or above pre-failure levels.

Maxham (2001) utilized a within-subjects design and surveyed students (406) about their haircut experiences. They also surveyed 116 complainers of an internet service provider. They used multivariate analysis of variance to test their hypotheses. The results indicated a significant difference in word of mouth intentions between the high and moderate service failure recovery conditions. Levels of satisfaction and repurchase intent however, were insignificant.

Studies supporting the service failure recovery paradox

Bolton and Drew (1992) conducted a telephone survey of 1,064 customers of a small business. They used a between-subjects design and regression analysis to test their hypotheses. The result of their analysis indicated that recovery attempts that were rated as "excellent" led to a recovery paradox.

Boshoff (1997) recruited 540 international tourists and conducted a survey with scenarios based on the airline industry. The study was a between-subjects design, and analysis of variance was used to analyze the data. Results confirmed a service failure recovery paradox occurring for those customers for whom the airline immediately offered full refunds and a free airline ticket. Boshoff qualified the support for the paradox noting that the phenomenon is a “rare event.”

Using a student sample (N=251), Hocutt, Chakraborty, and Mowen (1997) looked at the impact of perceived justice on consumer satisfaction and intent to complain using a restaurant scenario. In their factorial design experimental study they used multivariate analysis of variance. The results indicated that a paradox was found when the failure was perceived as being the fault of customer but not when the fault was the company's. This provided limited support for a paradox.

Smith and Bolton (1998) conducted surveys in both hotel (N=602) and restaurant (N=375) settings. The study was a within-subjects design, and the investigators conducted mean analysis. Results indicated support for a recovery paradox in that measures of cumulative satisfaction repatronage intentions were higher after the recovery than prior to the failure.

McCollough (2000) designed a 2x2 factorial study that evaluated how perceived justice and attributions of service failures and recovery affected post recovery customer satisfaction and service quality attitudes. Analysis of variance and multiple linear regressions were used. Results demonstrated support for a paradox in service situations in low-harm situations in which complete recovery was possible.

Maxham and Netemeyer (2002) conducted a longitudinal study with customers (255) at a bank. They measured four separate points in time over a 20 month span. They used

multivariate analysis of covariance to test this within-subject design. Results indicated that a recovery paradox was found after one failure. The investigators also continued their inquiry to determine the results of multiple failures. They determined that the recovery paradox did not occur with customers who reported a second failure in spite of a successful recovery.

Hocutt, Bowers, and Donovan (2006) initiated an experiment (2x2x2 factorial design) that included 211 students in a restaurant-based scenario. They used multivariate analysis of variance to test the between-subjects design. Evidence supporting a paradox was found in that those in the best recovery scenario reported higher levels of satisfaction and lower levels of negative word of mouth than those in the no-failure scenario.

Looking at moderators of the relationship, Magnini et al. (2007) conducted a between-subjects design experiment with a convenience sample of 400 undergraduate students. Scenarios were written regarding a service failure in a hotel context. Results from the study indicated that the paradox did occur in conditions where the failure was not perceived as severe, when there had not been prior failures with the organization and if the cause of the failure is perceived as being beyond the firm's control.

The most recent work on the topic (Michel & Meuter, 2008) also lends support for a service recovery paradox. In an effort to explore the existence, frequency, and magnitude of the service recovery paradox, the authors used a between-subjects design and surveyed 11,929 customers in the banking industry. Results indicated support for the service failure recovery paradox. Moreover, the authors suggested that the paradox is a rare event and although the differences were significant between groups, they were small – thus diminishing to some degree their practical relevance.

A final noteworthy study offers some clarity to the conflicting results in these studies. Matos et al. (2007) provided a meta-analysis of the service recovery paradox literature. The analysis looked at a variety of attributes of the studies, including the specific service category (e.g. hotel or restaurant), methodology, respondents (student vs. nonstudent), dependent variables used, reliabilities for the dependent variables, and effect sizes. Their results indicated multiple boundary conditions under which the service recovery paradox held. First, they noted that there was a significant and positive effect of the service recovery paradox on customer satisfaction. Second, the authors found that the design (cross-sectional versus longitudinal), the service industry category, and the participants (student versus non student) influenced the effects of the service recovery paradox on customer satisfaction.

Viewed together, these studies present a picture of a literature which is beginning to mature beyond the questions of whether the paradox exists or not to under which conditions does it hold? When considering methodological limitations, we learn that statistical power is a potential issue with many service recovery paradox (SRP) studies (Matos et al., 2007). Hence, future studies would be well advised to use large samples sizes. Another consideration is that longitudinal studies seemed to be more resilient to the effects of student samples than their cross-sectional counter parts. Future studies exploring the SRP regardless of sample, would more likely find support for the paradox using longitudinal than a cross-sectional design. Also contextual factors such as the service category in which the study is conducted can also effect whether a SRP is supported.

Considering other boundary conditions it is important to note that attributes of the service failure itself can affect the extent to which a service recovery paradox takes place. Research

indicates that a recovery paradox is most likely to occur when the failure is less severe (Magnini et al., 2007; Mattilla, 1999; Smith & Bolton, 1998). In addition, prior failures (Kelly, Hoffman, & Davis, 1993; Magnini et al., 2007) and the degree to which organization has control over the occurrence of the failure (Folkes, 1984; Maxham & Netemeyer, 2002) have also been demonstrated to have an effect.

ISSUE 1: RESPONSES TO UNETHICAL BEHAVIOR

Now that I have addressed the extant findings in both the ethical decision-making and service recovery literatures, I attempt to empirically test the question: *How do individuals react to organizational unethical behavior, and to what extent are those reactions dependent on contextual and individual factors?*

Figure 2 illustrates a model that identifies the two components of my first research issue. First, it proposes a set of relationships between unethical acts on the part of the organization and employee reactions to those acts. Second, it proposes that individual and contextual factors may serve to strengthen or weaken the relationship between organizational unethical behavior and employee reactions. In the next sections I will outline how I conceptualize employee reactions as the dependent variables and also the organizational unethical behaviors as the independent variables.

Insert *Figure 2* here

Reactions to Organizational Unethical Behaviors

The first part of the research issue asks, “How do individuals react to organizational unethical behavior?” As mentioned previously, the current behavioral ethics literature is relatively silent in response to this question. Social psychology seems to provide potential insight as to why there is so little research on the outcomes of unethical behavior. Reasons might

be attributed in part, to the structure of stimuli commonly used by ethical researchers. Monin, Pizarro, and Beer (2007) noted a trend in the ethics literature of using “moral dilemmas” to induce participant deliberation by pitting one moral rule against another. In such scenarios, participants are asked to report what they would think or do in a given situation. In contrast, relatively few studies have utilized a “moral reaction” scenario in which the act in question has already occurred and the participant is then asked to make moral judgments about the act. For example, researchers investigating cognitive and emotional responses on ethically questionable practices used shocking scenarios such as a brother and sister passionately kissing, or a family eating their pet dog to evoke disgust in the participant (Haidt, Koller, & Dias, 1993). Although “moral reaction” studies are some of the few to document consequences of unethical behavior, these seem to address broader social issues in which the actor is not the organization.

One of this study’s purposes is to answer the question of how individuals react to organizational unethical behavior. I use a field study in which organizational unethical actions were observed and the employees are asked to describe their reaction to those actions.

Evidence suggesting likely employee reactions to organizational unethical behavior can be found in a related stream of research namely, ethical leadership which examines many positive outcomes of ethical leadership behaviors. However, as Brown and Treviño (2006) argue, too little is known about the relationship between *unethical* and *ethical* leadership. Therefore, it is unclear whether ethical and unethical are merely opposite ends of the same continuum or distinct constructs. Recognizing for example, that low levels of ethicality and high levels of unethically are not necessarily the same is a fundamental assumption of this research.

Therefore, although the ethical leadership literature makes significant headway informing us of the consequences of *ethical* behavior, the responses to *unethical* behavior remain unclear.

Another related field of organizational justice is informative in understanding potential reactions to unethical behaviors. Both justice and ethics are grounded in the assumption that people should be treated according to a set of norms (Folger, Cropanzano & Goldman, 2005). Consequently, it would be reasonable to expect that the violation of both justice and ethical norms might have similar outcomes.

Empirical evidence in the justice literature suggests that justice dimensions are positively related to outcomes such as jobs satisfaction and organizational commitment (Masterson, Lewis, Goldman & Taylor, 2000). Research also reveals a positive relationship between *injustice* and negative outcomes such as employee theft (Greenburg, 1990; 1993) and organizational retaliatory behaviors (Skarlicki & Folger, 1997).

Drawing on these other bodies of literature, I propose that the specific employee reactions to organizational unethical behavior in the current study should be conceptualized as: 1) how satisfied they are with their organization and 2) how ethical they perceive their organization to be.

Now that I have conceptualized the dependent variable (employee reactions to organizational unethical behavior) I will next explain how I conceptualized the independent variable (organizational unethical behaviors).

Characteristics of Organizational Unethical Behavior

Both the ethics and service recovery literature address the issue of organizational failures, and each has something to offer in terms of understanding the severity of those failures.

The ethics literature has conceptualized the severity of ethical acts or events by considering Jones' (1991) moral intensity. As outlined earlier, Jones (1991) proposed an issue-contingent model of ethical decision making which illustrates how characteristics of the moral issue vary in terms of intensity and thus can affect individual impressions and determine the moral imperative of the issue. Using evidence provided by social psychology, more specifically social cognition (see Fisk & Taylor, 1984), Jones (1991) suggests that moral intensity will affect moral cognition and behavior. The construct of moral intensity is decomposed into six factors:

- 1) Magnitude of consequences, which refers to the aggregate harm done to victims or aggregate benefits accruing to beneficiaries;
- 2) social consensus, is defined as the level of agreement about the goodness or evil of a proposed act;
- 3) probability of effect, is described as a joint function of the likelihood of occurrence of an act and the expected consequences of the act;
- 4) temporal immediacy, refers to the length of time between the act and its ethical consequences;
- 5) proximity is defined as the degree to which the actor can identify with potential victims or beneficiaries;
- and 6) concentration effect refers to which costs or benefits of the act apply to only a few people.

Jones (1991) asserts that these dimensions collectively define the moral intensity of a given issue.

Empirical testing of Jones' model historically has provided inconsistent results. As an example some studies have indicated that all six dimensions predict moral awareness (Sighapakdi, Vitell & Kraft, 1996) whereas others found conflicting results with just one

dimension predicting moral awareness (e.g. Davis, Johnson & Ohmer, 1998; May and Pauli, 2002). However, in this case as well as in other relationships two factors seem to have emerged as the most consistent of the six, *magnitude of consequences* and *social consensus* (Brown & Treviño, 2006; Marshall & Dew, 1997).

As mentioned earlier in the literature review, the service recovery literature is a discipline that has also looked at characteristics of organizational acts which might affect individual outcomes. The service recovery literature investigates the characteristics of service failures within service organizations. These scholars have also determined attributes of the act that should be considered when evaluating organizational failures, some of which parallel those conceptualized by Jones (1991) in the ethical decision-making literature. For example, in their model of customer satisfaction with service failure/recovery encounters, Smith et al. (1999) outline six characteristics of a service failure which impact customer evaluations of the organization.

Type of failure distinguishes between an outcome and a process failure (Bitner, Booms & Tetreault, 1990). Outcome failure refers to *what* service customers actually receive whereas process failure describes *how* it is delivered (Prasuraman, Zeithaml & Berry, 1985). Marketing scholars draw on resource exchange theories to justify how each might represent a different category of loss (Smith et al. 1999).

Failure magnitude is proposed to affect outcomes like customer satisfaction. Scholars have found that the higher the failure magnitude the lower the level of customer satisfaction (Hoffman, Kelly & Rotalsky, 1995). Specifically, as the size of the loss to the customer caused by the organizational failure increases, customers view the exchange as inequitable and become

increasingly dissatisfied. Hence, resource exchange principles are again at play in offering theoretical justification (Smith et al. 1999).

Compensation reflects the remuneration efforts made by the company after they have made the mistake. Drawing on social exchange theory based on equity theory (Adams, 1965), marketing scholars suggest compensation is one method used to bring equity back to a strained relationship (Walster, Berschid & Walster, 1973). Furthermore, they suggest that higher levels of compensation lead to higher levels of customer perceptions of distributive justice (Tax, Brown & Chandrashekar, 1988).

Similar to compensation, an *Apology* from the organization is viewed from a social exchange perspective as a type of remuneration in that it redistributes esteem in an exchange relationship (Walster et al., 1973). Marketing scholars have found evidence to suggest that organizational apologies increase the customer's perceptions of the service encounter (Kelly et al., 1993).

Response speed considers the elements of timing, responsiveness and customer wait time (Clemmer & Schneider, 1996; Kelly et al., 1993). Research suggests that the quicker response times have positive effects on customers' evaluations (Clark, Kaminski, & Rink, 1992).

Recovery initiation distinguishes between proactive and reactive complaint handling. That is, does an organization attempt to recover from the failure only after the complaint is lodged by the customer (reactive), or does the organization on its own initiation, make the customer aware of the failure and then make attempts to recover (proactive)? Research does suggest that proactive complaint handling increases customer evaluations of the organization (Berry, 1995; Kelly, et al., 1993).

More recently, other services marketing scholars have discovered evidence of additional characteristics of service failures that would have an effect on customers' evaluations of service failures and subsequent recoveries. These include prior failures with the organization, the stability of the cause and control that the organization had over the cause (Magnini et al., 2007).

Prior failures distinguish between one-time, transaction-specific evaluations and evaluations of historical interactions between the customer and the organization. Cronin and Taylor (1994) support the historical perspective by suggesting that satisfaction judgment is an accumulation of all interactions with the firm. Drawing on attribution theory (Ajzen & Fishbein, 1983), Mangini et al. (2007) find empirical evidence suggesting that if a customer experiences a first time failure, the cause of the problem might be attributed to an external source. After a second time, however, the customer is more likely to attribute the cause of the problem to an internal source within the organization.

Stability refers to the extent to which the cause of the problem is viewed as a temporary cause that could potentially change or a more persistent, permanent cause (Hess, Ganesan, & Klein, 2003). Research indicates that customers are more likely to pardon service failures if they attribute the problem to unstable or temporary causes (Kelly et al., 1993). Mangini et al. (2007) explain that this is because in the customer's mind, the likelihood of the problem happening again is very slim.

The final characteristic of a service failure is *perceived control*. Scholars have noted that customers were more willing to pardon service failures if they perceived that the company had little control over the failure (Maxham & Netemeyer, 2002). In contrast, when customers perceive that the organization had considerable control over the failure, they seem to be less

willing to forgive the organization (Folkes, 1984) hence, becoming more dissatisfied. Theoretical grounding for this notion of control comes from attribution theory, which suggests that people engage in spontaneous causal thinking. In particular, this causal thinking process occurs to fulfill the needs of individuals to be able to predict and control their environment (Wiener, 2000).

Individual attributions of the causality have been found to have both affective and behavioral responses (Folkes, 1988). Moreover, when a failure is attributed to the organization it has been known to impact customer satisfaction (Maxham & Netemeyer, 2002).

These characteristics of service failures, type of failure, failure magnitude, compensation, apology, response speed, initiation, prior failures, stability and control have been demonstrated to have an effect on the way customers perceive the organization and how satisfied they are with the organization. Many of these constructs seem complementary to Jones' (1991) six elements of moral intensity. In fact, some map directly onto Jones' constructs for example, magnitude of consequences. In this study I integrate some of the services marketing constructs and theories with the behavioral ethics constructs and theories in an effort to answer the question of how employees react to OUB's. Although each of the services marketing characteristics would be merit consideration for inclusion in this study, such an endeavor would be too broad in scope for the purposes of the current study. However, many characteristics could potentially be suitable for examination in a future research program.

In the current study, I explore three characteristics of organizational service failure as indicators of organizational unethical behavior: severity, social consensus and control.

Justification for using these specific characteristics follows:

The first OUB characteristic I consider is *severity*, a parallel construct to *magnitude of consequences*. As may be recalled, *magnitude of consequences* is considered the sum of the harms done to victims or the moral act in question (Jones, 1991). *Severity* in the service failure recovery literature is similarly defined as the magnitude or loss (either tangible or intangible) that customers experience due to the failure (Hess et al., 2003; Smith et. al, 1999). The construct of severity has been a consistent construct in business ethics literature as previously mentioned (see Brown & Treviño, 2006), and it also allows some of the theoretical and empirical evidence from the service failure recovery literature to inform my hypotheses. The second OUB characteristic I suggest using for this study is *social consensus*. This construct has also enjoyed robust results as an antecedent in the ethical decision-making literature. Moreover, the very definition of ethicality includes an ethical norms component. Therefore, a study of consensus around those norms would be extremely fruitful. The final OUB characteristic is control. I propose using this construct because it appears to have some of the most theoretically robust justifications (drawing on attribution theory) and has received a good deal of empirical attention relative to all the characteristics previously mentioned in the service recovery literature. It boasts a long empirical tradition starting with Folkes (1984) and continues to be a valuable construct of empirical interest in the service recovery literature up to the present time (e.g. Mangini et al., 2007).

In sum, I draw upon the theoretical and empirical support from the ethical decision-making service-recovery literatures to conceptualize acts of organizational unethical behavior in terms of their severity, social consensus and control. My model predicts that high levels of these three characteristics of organizational unethical behaviors will result in more severe reactions by employees.

Direct Effect Hypotheses

H1a: Severity of OUB will be negatively related to employee evaluations of organizational satisfaction.

H1b Severity of OUB will be negatively related to employee evaluations of perceived organizational ethicality.

H2a: Consensus of OUB will be negatively related to employee evaluations of organizational satisfaction.

H2b Consensus of OUB will be negatively related to employee evaluations of perceived organizational ethicality.

H3a: Control of OUB will be negatively related to employee evaluations of organizational satisfaction.

H3b Control of OUB will be negatively related to employee evaluations of perceived organizational ethicality.

I will now address the second part of the first research issue, the extent to which individual and contextual factors may serve to strengthen or weaken the relationship between organizational unethical behavior and employee reactions. I do so by considering moderating effects on that relationship. Individual factors include the quality of the perceived relationship that the individual has with the organization. Contextual factors include the formal and informal norms that exist in the organization's ethical culture.

Individual Factors

Research in other domains of organizational behavior has demonstrated the importance of the quality of relationships individuals have with their organizations. For example, studies have linked having a high quality relationship to organizational citizenship behaviors (Deluga, 1994; Hui, Law, & Chen, 1999; Piccolo & Colquitt, 2006). Also, empirical work on leader-member exchange has demonstrated that having a high quality relationship with one's supervisor is associated with a variety of positive employee outcomes (Gerstner & Day, 1997). This body of research informs my thinking about how individuals will react to organizational unethical behavior. Of particular interest in this study are individual perceptions of the quality of his/her relationship with their organization (perceived organizational support). Rooted in social exchange theory (Gouldner, 1960), organizational support theory (Eisenberger, Huntington, Hutchison, & Sowa, 1986; Shore & Shore, 1995) suggests that on the basis of reciprocity norms, individuals who perceive high levels of support from a given target (co-worker, supervisor or organization) will care about the welfare of the target and desire to be helpful (Rhodes & Eisenberger, 2002). The extent to which there is felt reciprocity in the relationship is an indication of the quality of the relationship. Hence, conceptually an individual's perception of support from their organization can be viewed as a perception of the relationship quality with their organization.

A relationship is suggested by the tendency that employees have to personify the organization (see Levinson, 1965) thereby gaining a sense of how much the organization cares

about them. Distinguishable social exchange relationships between organizations and employees have been established by scholars in the justice literature, for example. (e.g., Moorman, Blakely, & Niehoff, 1998). This study takes into account the perceived quality of relationship that an employee has with his/her organization and operationalizes it as perceived organizational support (POS). Empirical evidence suggests that POS does reflect the quality of the relationship between employee and the organization in that, employees perceive that their contributions are valued by the organization and that the organization is concerned about their well being (Eisenberger, et al., 1986). The connection between POS as a reflection of relationship quality and positive employee outcomes has also been made in the justice literature (Masterson et al., 2000).

It is within a perceived high quality relationship context, that I predict and intensified negative relationship between the characteristics of the act and employee reactions to organizational unethical behaviors. Social exchange relationships are characterized, in part by “trusting others” and “personal obligations” (Blau, 1964:94). Some scholars have gone so far as to characterize the quality of the exchange relationship as taking on qualities of a “covenant” (Organ, 1988:69). Individuals in these exchange relationships will strive to balance the inputs and outcomes of the exchanges in order to compensate for any inequality (Adams, 1965). If there is a perceived inequality in favor or the other party, it will negatively affect the assessment of the exchange relationship. I submit that when the implied trust or “covenant” in the exchange relationship between the employee and the organization is broken, the employee will experience increased negative reactions. In other words the betrayal of the relationship will make what is already a negative reaction to organizational unethical behaviors, even worse.

Individual Factors Moderated Hypotheses

H4a: Perceived relationship quality (POS) will moderate the relationship between severity and employee organizational satisfaction such that higher levels of relationship quality will intensify the negative relationship between severity and organizational satisfaction.

H4b: Perceived relationship quality (POS) will moderate the relationship between severity and employee organizational ethicality such that higher levels of relationship quality will intensify negative relationship between severity and perceived organizational ethicality.

H5a: Perceived relationship quality (POS) will moderate the relationship between consensus and employee organizational satisfaction such that higher levels of relationship quality will intensify the negative relationship between consensus and organizational satisfaction.

H5b: Perceived relationship quality (POS) will moderate the relationship between consensus and employee organizational ethicality such that higher levels of relationship quality will intensify negative relationship between consensus and perceived organizational ethicality.

H6a: Perceived relationship quality (POS) will moderate the relationship between control and employee organizational satisfaction such that higher levels of relationship

quality will intensify the negative relationship between control and organizational satisfaction.

H6b: Perceived relationship quality (POS) will moderate the relationship between control and employee organizational ethicality such that higher levels of relationship quality will intensify negative relationship between control and perceived organizational ethicality.

Contextual Factors

In addition to individual factors, behavioral ethics research has provided a multitude of contextual factors that may influence organizational ethics. One of the most widely considered is that of the ethical culture of the organization. Ethical culture is defined as a “slice of the organizational culture that influences employees’ ethical behavior through formal and informal organizational structures and systems” (Treviño et al., 2006, p.966). Therefore, organizations provide formal and informal socialization processes through which individuals come to understand accepted standards and norms of the organization which in turn affect the thinking and behaviors of the individual.

The current study focuses on ensuring that ethical context includes both aspects. It includes an ethical culture in which individuals act ethically in order to be in compliance with formal rules and an ethical culture in which individuals act ethically in order to adhere to informal norms. I conceptualize breadth of ethical infrastructure as a combination of all the

formal, compliance-based contextual elements and the ethical norms as all the *informal*, norms-based contextual elements.

The person-situation interactionist model (Treviño, 1986) suggests that among other things, ethical context would moderate the relationship between moral cognition and ethical behavior. The logic is that ethical context would impact how individuals perceive the morality of an issue and also how they would choose to act. Extending the model one step further to include the consequences of their actions, this study looks proposes that ethical context would similarly impact how the choice to act is perceived by others. In both cases, the relationship between cognitive perceptions and actions is moderated by ethical context regardless of the direction of causality.

Trevino (1998) provides further reason for the effects of ethical context on employee perceptions. She stated that “To the extent that these formal and informal cultural systems support ethical conduct, individual behavior is expected to be more ethical.” (p. 452). This would imply that employees who work in organizations in which there is a strong ethical context would have higher expectations of ethical behavior from the organization. Should the organization fall short of these heightened expectations, employees are likely to make negative assessments of the organizations. It is in this context that if an employee is already experiencing negative reactions to unethical behaviors, that those reactions will be intensified. I propose that ethical context will serve as a condition under which the negative relationship between the characteristics of the act and employee reactions to organizational unethical behaviors will be exacerbated.

Contextual Factors Moderated Hypotheses

H7a: Ethical context will moderate the relationship between severity and organizational satisfaction such that higher levels of ethical context will intensify the negative relationship between severity and organizational satisfaction.

H7b: Ethical context will moderate the relationship between severity and organizational ethicality such that higher levels of ethical context will intensify the negative relationship between severity and perceived organizational ethicality.

H8a: Ethical context will moderate the relationship between consensus and organizational satisfaction such that higher levels of ethical context will intensify the negative relationship between consensus and organizational satisfaction.

H8b: Ethical context will moderate the relationship between consensus and organizational ethicality such that higher levels of ethical context will intensify the negative relationship between consensus and perceived organizational ethicality.

H9a: Ethical context will moderate the relationship between control organizational satisfaction such that higher levels of ethical context will intensify the negative relationship between high control and organizational satisfaction.

H9b: Ethical context will moderate the relationship between control organizational ethicality such that higher levels of ethical context will intensify the negative relationship between high control and perceived organizational ethicality.

METHOD

Participants and Procedures

To test the preceding hypotheses I gained access to field study data from the Ethical Resource Center (ERC). The ERC database contains the survey responses of 29,238 participants – drawn from 16 manufacturing and technology firms in the United States. Participants were asked about their perceptions of the ethical behavior of leaders and coworkers, the type, frequency and effectiveness of training opportunities, the type and frequency of observed unethical behavior, personal experiences with respect to ethical efficacy and ethical conflict, reporting behavior, satisfaction with the organization's response to reporting, and characteristics of the interactions and relationships with their leaders (e.g., trust, communication, support). Although the ERC data collection effort was not designed as an academic study, it suits the purposes of this study well because several items speak to the constructs of interest for this study.

The ERC data set used consisted of 29,238 participants. Respondents had an average age of 45 years. As for their education background, 23 % had a high school degree or lower, 21 % had at least 2 years of college, 34 % had graduated with a bachelor degree, and 22 % had completed post-graduate work. The respondents reported their ethnic identity as 4.3 % Asian, 4.9 % African-American/Black, 4.4 % Hispanic / Latino, 0.4 % Middle Eastern, 1.1 % Native American, 83 % Caucasian/White, and 1.5 % identified themselves ethnically as other. With respect to gender, 25 % of the respondents were female.

An initial look at the items used by the ERC indicated that many of them would reflect the constructs of the model. Because information on the characteristics of the independent

variables (i.e., the severity, consensus and controllability of the unethical behavior) was not explicitly available in the ERC data, I address the development of those constructs in detail later in this study. However, in short, I collected third-party assessments of the organizational unethical behavior (OUB) characteristics. It is important to note that in capturing the ratings for the acts I appended them to the ERC dataset. In doing so, I realize special considerations that needed to be taken. In the ERC data set, participants are given the opportunity to indicate whether they have observed multiple unethical acts (nine, as mentioned previously). For those participants who observe one of these acts, reporting the characteristics of that act is a matter of simply assigning the mean third party rating of severity, consensus and control, respectively, to determine the characteristics of the OUB observed by that individual participant. However, in some instances, an individual may report having witnessed multiple unethical acts. To reduce any confounds that might affect the analysis, a subset of the dataset was taken (N= 3,458) in which only those cases in which one and only one OUB was observed were included.

Although the independent variables involved extensive treatment, items in the ERC data that described the dependent (organizational satisfaction and perceived organizational ethicality) and moderating variables were available, and I organized them as illustrated in the following measures section based initially on their face validity and eventually discriminant validity through a series of analyses.

Measures

In order to explore employee reactions to organizational unethical behavior I first identified measures that capture the characteristics of the unethical act as well as measures that address the contextual and individual factors that potentially moderate the reaction.

Characteristics of Organizational Unethical Behavior

Although conceptually moral intensity includes six factors, empirical studies that have since tested Jones' (1991) framework suggest that the *magnitude of consequences* and *social consensus* tend to be most consistent significant factors of moral intensity (Brown & Treviño, 2006, Marshall & Dewe, 1997; Morris & McDonald, 1995). Following these findings, this study will also use similar measures of *severity* and *consensus*.

A third variable of interest is *organizational control*. As mentioned earlier in this paper, the construct of organizational control is borrowed from the service-failure recovery literature and appears to be one of the most promising constructs that affect customer satisfaction evaluations.

Participants in the ERC study were asked to respond to a list of the types of unethical activity they witnessed, which included: 1) sexual harassment, 2) giving or accepting bribes, kickbacks, or inappropriate gifts, 3) falsifying or misrepresenting financial records and reports, 4) lying to employees, customers, vendors, or the public, 5) withholding needed information from employees, customers, vendors, or the public, 6) mis-reporting actual time or hours worked, 7) stealing, theft or related fraud, 8) abusive or intimidating behavior toward employees, and 9) discrimination on the basis of race, color, gender, age or similar categories.

Although the items used in the ERC field data identify several unethical acts that employees might observe in the work place, they do not include direct measures of *severity*, *consensus*, or *control*. Therefore, a small supplemental study (see Appendix E) was necessary to derive measures of these constructs.

Supplemental Study

Participants in the supplemental study were asked to be third-party coders for the behaviors asked about in the ERC data. Specifically, they were asked to rate the *severity* of the nine unethical acts that were observed in the archival data (See Appendix E).

Coding Pilot test

To determine whether the instructions and format for the coding exercises were clear and accurate, I administered 82 surveys to graduating seniors at a college of business in the southeast. Participants were asked to code each of the following nine behaviors along the three dimensions (Severity, Consensus, and Controllability) (See Appendix E). The participants were presented with each of the three dimensions of unethical behavior in a counter-balanced fashion (six different versions of the survey). Respondents were asked to rate each of the nine behaviors with respect to each dimension. In addition, participants were asked to give written feedback to the researcher on the instrument. Results from the pilot study indicated that participants were able to distinguish clearly among the three dimensions, yet some added comments to clarify or create boundary conditions for their responses to the list of 9 unethical behaviors that were extracted from the ERC data. Participants also gave some feedback on how to improve the question stems and response items to increase the instrument's precision. Although I was unable

to make any changes to the 9 behaviors because they were the exact questions asked by the ERC, I did make changes to the question stems and items to improve clarity.

Internet coding

Having accomplished the goal of the coding pilot test, I commenced with the online coding exercise, which included the appropriate instrument enhancements that were mentioned by the pilot group. A total of 660 participants were approached as recruits from multiple online sources. 520 contacts were recruited through facebook, a social-networking site. Each had a facebook profile and could consequently be invited to participate in a facebook “event” that was titled “Help [the researcher] with his dissertation.” In addition, 140 personal e-mails were sent from the researcher’s e-mail contact lists, which consisted primarily of the researcher’s former business associates from more than 10 years of industry work in the personal care products, computer software, semiconductor, and corporate training and development industries. Recruits were asked if they would help the researcher with his dissertation by completing a short survey. The invitation included a link to the online survey, which was hosted by a third-party online survey administration service (Qualtrics). Participants were asked to complete the survey within a two week period. A total of 210 recruits responded over a period of two weeks for a response rate of (32%). Of the 210 responses, 100 participants were selected – based on having had full-time work experience and on their demographic characteristics – to create a group to match as closely as possible those demographics of the respondents from the ERC data. Table 1 illustrates the demographic comparison between the two groups.

Insert Table 1 here

Descriptive statistics were gathered, and the means from the participants' ratings of each of the nine behaviors along the three dimensions of severity, consensus and control were then calculated and used as measures for each of the respective nine behaviors and appended to the ERC data base (See Table 2). In addition to the means for each of the three, a fourth variable was created (Consensus 2), which was the mathematical calculation of consensus. This involved taking the inverse of the standard deviation of each of the 9 severity measures.

Insert Table 2 here

As was mentioned previously *severity* is similar to what is referred to in the ethics literatures as magnitude of consequences. Jones (1991) refers to magnitude of consequences as “the sum of the harms (or benefits) done to victims (or beneficiaries) of the moral act in question” (p.374). The variation of the ratings of severity in the supplemental study represents the extent to which there is agreement that a given behavior is wrong. This provided one measure of *consensus*. The second measure of consensus included explicitly asking the participants about the extent to which they thought others would agree with their own ratings. This concept of consensus is similar to Jones' component of *social consensus*, which is defined as “the degree of social agreement that a proposed act is evil (or good)” (Jones, 1991, p. 375). The third independent measure I developed through the supplemental study was *organizational*

control. After participants rated the nine organizational unethical behaviors with respect to their severity, they were presented the same nine items and asked to rate them on a Likert-type scale (1-7) as to the degree to which they thought that organizations can control these unethical behaviors.

This supplemental study provided measures of severity, consensus and controllability for the acts witnessed by the participants in the field study. In sum, *Severity* was measured by ratings provided by participants of the pilot study, *Consensus* was measured by variation in those ratings across participants as well as by participant ratings, and *Control* was also measured by participant ratings.

Contextual Variables

As was mentioned previously, I conceptualized ethical infrastructures as the formal compliance-based contextual elements and the ethical norms as the informal norms-based contextual elements. To capture the compliance verses norms distinction, ethical context was operationalized as *formal ethical infrastructure* and *informal ethical norms*, which includes the compliance and norms aspects respectively.

Breadth of Formal Ethical Infrastructure (5-Items, cumulative index)

The five measures for formal ethical infrastructure were adopted from the ERC framework for formal programs. Formal programs refer to the “policies, procedures, and practices that organizations may adopt to help communicate the importance of ethics, provide

resources to employees and handle related issues and problems that arise” (Ethical Resource Center, 2005, p. 5).

1. Does your company have any written standards of ethical business conduct for example a code of ethics, a policy statement on ethics, or guidelines on proper business conduct that proved guidance for your job?
2. Does your company provide training on its standards of ethical conduct?
3. Does your supervisor evaluate your ethical behavior as part of your regular performance appraisals?
4. Does your company have a specific office or telephone line where you can get advice about business ethics issues?
5. Does your company provide employees with a way to report misconduct anonymously - without giving their names or other information that could identify them?

The ERC measures a sixth element of a formal program, which includes discipline of violators. I chose not to include this item because it conceptually seemed to better reflect accountability and thus has been included in the ethical norms construct below.

Informal Ethical Norms (11-Items, $\alpha=.88$)

To measure the informal ethical context I chose to adopt the ERC framework for normative ethical culture. Ethical culture is defined as the “informal and social system that sets norms for employee behavior” (Ethical Resource Center, 2005, p. 4). However, I chose to make one modification. Because my model proposes measuring organizational ethicality as a dependent

variable, I extracted the two items from the culture measures because the focus was on actual behaviors, similar to the other organizational ethicality measures, and thus would be accounted for in the organizational ethicality measures presented later. These items were “Overall, my supervisor sets a good example of ethical business behavior.” and “Overall, my co-workers set a good example of ethical business behavior.”

Top Management

1. I trust that top management in my company will keep their promises and commitments.
2. Top management in my company talks about the importance of ethics and doing the right thing in the work we do.

Supervisors

1. I trust that my supervisor will keep his or her promises or commitments.
2. My supervisor talks about the importance of ethics and doing the right thing in the work we do.
3. My supervisor supports me in following my company’s ethical standards.

Coworkers

4. My coworkers carefully consider ethical issues when making work-related decisions.
5. My coworkers talk about the importance of ethics and doing the right thing in the work we do.
6. My coworkers support me in following my company’s standards of ethical behavior.

Accountability

7. Managers are held accountable if they are caught violating my company's ethics standards.
8. Non-management employees are held accountable if they are caught violating my company's ethics standards.
9. My supervisor disciplines employees who violate my company's ethical standards.

Individual Variables

Recall that the second moderator variable focuses on the individual level. This support measure is conceptualized as perceived organizational support (POS). This reflects the quality of relationship an employee perceives with his or her organization. Thus, I selected support measures from the ERC data that were indicators of individual perceptions of relationship quality and which are as similar as possible to items used in established scales such as "The organization values my contribution to its well-being." and "The organization shows very little concern for me (*reverse scored*)" (Eisenberger et al., 1986).

POS (2 items; $\alpha=.62$)

1. I feel valued as an employee of my company.
2. I am satisfied with the information I get from top management about what's going on in my company.

Indicators of Employee Reactions to Organizational Unethical Behaviors

Organizational Satisfaction

Satisfaction with organization was measured with one item

1. Considering everything, I am satisfied with the company I work for.

Although single-item measures are not typically well suited for academic research, Wanous, Reichers, and Hudy (1997), in measuring overall job satisfaction for example, suggest that single-item measures should not be viewed as a fatal error. In fact, there is evidence that single-item measures are valid in evaluating non-standard variables (Ilgen, Nebeker & Pritchard, 1981) and that such measures have been extensively applied in the past and have met the rigors of peer evaluation as they were published in leading journals (Morris, Lydka & Fenton–O’Creevy, 1993; Greenberg & Barling 1999).

Organizational Ethicality (6 –items; $\alpha=.70$)

1. In your company’s daily operations how often is the value of honesty practiced?
2. In your company’s daily operations how often is the value of respect practiced?
3. Overall, the head of the company sets a good example of ethical business behavior.
4. Overall, my supervisor sets a good example of ethical business behavior.
5. Overall, my co-workers set a good example of ethical business behavior.
6. My company deals fairly with customers who receive its products and / or services.

Exploratory Factor Analysis

Participants and Procedure

The measures I used for the current study were developed for field work by the ERC, and I had no information about the psychometric properties of the proposed scales. Therefore, I needed to conduct further analyses to get an idea of the validity of these measures. The original data set being used for this study consisted of 29,236 participants, from which I separated-out a subset of 5 percent ($N=1,486$) for scale development. I dedicated these cases to exploratory factor analysis, leaving a balance of 27,750 participants for further analysis and hypothesis testing.

Results

To analyze the factor structure underlying *Informal Ethical Norms* (11 items), a maximum likelihood estimation procedure was utilized. Results from the analysis indicate that only one factor was extracted with an eigenvalue greater than one, which accounted for 55 percent of variance. The descriptive statistics of the item responses are presented in Table 3. Thus I will not pursue these as four distinct aspects of informal ethical norms, but rather as a single construct. The internal consistency (alpha) reliability estimate for Informal Ethical Norms was $\alpha = .88$.

Insert Table 3 here

A similar analysis was conducted on the dependent variable *Organizational Ethicality*. Results from the analysis also indicate that only one factor was extracted with an eigenvalue greater than one, which accounted for 54 percent of variance. The descriptive statistics of the item responses are presented in Table 4. The internal consistency (alpha) reliability estimate for Organizational Ethicality was $\alpha=.70$.

Insert Table 4 here

Confirmatory Factor Analysis

Participants and Procedure

A sample of 27,750 participants from the ERC data was used and further reduced as follows. Some participants reported observing a variety of OUB's, whereas others observed none. Considering which data I would use for the hypothesis tests, I selected those cases in which the participant observed one and only one ethical failure. This was done because if an employee witnessed multiple ethical failure events, there would be no way to accurately assign values for the severity, consensus or controllability of that event. Individuals who saw all nine OUBs might, for example, react differently than those who saw just three or even one. After selecting the relevant cases, the sample size was reduced to 3,282.

Respondents had an average age of 53 years. As for their education background, 20 percent had a high school degree or lower, 19 % had at least 2 years of college, 35 % had graduated with a bachelor degree, and 25 % had completed post graduate work. The respondents reported their ethnic identity as 2.9 % Asian, 3.8 % African American/Black, 3.6 % Hispanic / Latino, 0.4 % Middle Eastern, 1 % Native American, 87.3 % Caucasian/White and 1.1 % identified themselves ethnically as other. As far as gender is concerned, 25 % of the respondents were female.

Measures

Perceived Organizational Support was measured with just two items: “I am satisfied with the information I get from top management about what is going on in my company” and “I feel valued as an employee of my company.” Participants were asked to respond to a 5-point Likert-type scale ranging from 1 (*strongly disagree*) to 5 (*strongly agree*). The internal consistency estimate (α) for perceived organizational support was .62.

Informal ethical norms (moderator variable) was measured by eleven items that addressed four different aspects of organizational norms: top management, supervisors, coworkers and accountability measures. The previous exploratory factor analysis had indicated, a single factor, however, so these were combined into one single scale. Each item was measured on a 5-point Likert-type scale ranging from 1 (*strongly disagree*) to 7 (*strongly agree*). Participants were asked to respond to questions such as “My coworkers carefully consider ethical

issues when making work-related decisions” or “Managers are held accountable if they are caught violating my company’s ethical standards.” The internal consistency estimate (α) for informal ethical norms was .88.

Organizational Ethicality (dependant variable) was measured by six items that addressed a general overall assessment of the respondent’s perceptions of how ethical the organization was. Each measure was selected because of its focus on the actual behaviors of actors within the organization. An example of an observable action is “In your company’s daily operations how often is the value of honesty practiced?”, as measured on a 4-point forced-choice scale that ranged from 1 (*never*) to 4 (*occasionally*). Items scored on this scale were transformed into a 5-point scale by multiplying the respondent’s choice by 1.33 and then subtracting .33. As a result, the transformation created the following new values for each item: 1=1, 2=2.33, 3=3.66, and 4=5.

Another type of behavioral-focused question included those dealing with how well people model the values in the work place. In other words, do they walk their talk? A sample item is “Overall, the head of the company sets a good example of ethical business behavior” measured on a 5-point Likert-type scale that ranged from 1(*strongly disagree*) to 5 (*strongly agree*). Cronbach’s coefficient reliability estimate (α) for this scale = .70.

Results

Before testing my hypotheses, I first evaluated the discriminant properties of the *informal ethical norms*, *perceived organizational support*, and *organizational ethicality* measures using Lisrel 8.80 to conduct a confirmatory factor analysis.

I first examined my theorized measurement model, which was a two-factor model with POS and Informal Ethical Norms items loading onto their respective scales. I found a moderately good fit of the data based on established fit criteria (Bentler & Bonnett, 1980). The comparative fit index (CFI) was .91, the normed fit index (NFI) was .91, and the root-mean-square error of the approximation was .13. Overall, these fit indices indicate a modest fit to the data.

Next, I imposed a one-factor model on the POS and Informal Ethical Norms items. Based on the established fit criteria, I also found a modest fit. The comparative fit index (CFI) was .91, the normed fit index (NFI) was .90, and the root-mean-square error of the approximation was .14. I then compared the two factor model with the alternative nested single-factor model (see table 5) noting the statistically significant change in chi-squared (320.52; $p \leq 0.05$) and minor changes in the NFI and RMSEA. Therefore, based on the results of the confirmatory factor analysis, I concluded that the 2-factor theorized measurement model was a better fit.

Insert Table 5

Finally, I evaluated the properties of Organizational Ethicality. The fit indices reveal the comparative fit index (CFI) was .91, the normed fit index (NFI) was .91, and the root-mean-square error of the approximation was .12. These results also demonstrated only a modest model fit.

Regression Analysis

Participants and Measures

The same sample and measures used for the confirmatory factor analyses were also used for the regression analysis, which included 3,282 participants – all of whom reported witnessing only one type of unethical behavior. Descriptive statistics and correlations among all the variables are listed in Table 6.

Insert Table 6

Results

Following the approach suggested by Aiken and West (1991), Jaccard, Wan, and Turrisi (1990) and Cohen, Cohen, West, and Aiken (2003), the data were mean-centered before using a moderated regression model to test the hypotheses. Aiken and West (1991) suggest that mean centering helps with issues of collinearity and computation.

Hypothesis tests were conducted using regression analysis. For the models predicting both of the dependent variables (Organizational Satisfaction and Organizational Ethicality), I entered individual difference variables of Age, Ethnicity, Education and Gender in Step 1, followed by the independent variables of Severity, Consensus and Control in Step 2. In Step 3, I followed with the moderator variables of POS, Breadth of Ethical Infrastructure, and Informal Ethical Norms. I then included interactions.

Main Effects

Hypothesis 1a predicted that higher levels of Severity would be negatively related to Organizational Satisfaction. As shown in Table 7, the relationship between Severity and Organizational Satisfaction ($\beta = -.138$), $t(3,282) = -1.27$, $p = ns$ was negative but nonsignificant, thus not supporting Hypothesis 1a.

I hypothesized that higher levels of Severity (Hypothesis 1b) would be negatively related to employee evaluations of Organizational Ethicality. As shown in Table 7 and in support of Hypothesis 1b, Severity was shown to be negatively related to employee evaluations of Organizational Ethicality ($\beta = -.128$), $t(3,282) = -2.80$, $p < .01$. The results confirm that employees are more likely to have lower perceptions of organizational ethicality when they perceived the observed unethical behavior to be severe.

Table 7

Hypothesis 2a predicted that higher levels of Consensus would be negatively related to Organizational Satisfaction. As shown in Table 7, the relationship between Consensus and Organizational Satisfaction ($\beta = .276$), $t(3,282) = .759$, $p = ns$ was in an unexpected positive direction and also nonsignificant, thus lending no support to Hypothesis 2a.

Similarly, no support was found for Hypothesis 2b, which predicted that higher levels of Consensus would be negatively related to perceptions of Organizational Ethicality. As shown in Table 7, the relationship between Consensus and Organizational Ethicality ($\beta = .370$), $t(3,282) = 2.07$, $p = ns$ was unexpectedly positive and nonsignificant, thus not supporting Hypothesis 2b.

I hypothesized that higher levels of Control (Hypothesis 3a) would be negatively related to employee evaluations of Organizational Satisfaction. As shown in Table 7 and in support of Hypothesis 3a, Control was shown to be negatively related to employee evaluations of Organizational Satisfaction ($\beta = -.119$), $t(3,282) = -1.76$, $p < .05$. The results confirm that employees are more likely to have lower satisfaction levels of organizational when they perceived the observed unethical behavior to be severe.

I also hypothesized that higher levels of Control (Hypothesis 3b) would be negatively related to employee evaluations of Organizational Ethicality. As shown in Table 7 and in support of Hypothesis 3b, Control was negatively related to employee evaluations of Organizational Ethicality ($\beta = -.074$), $t(3,282) = -2.213$, $p < .05$. The results confirm that employees are more likely to have lower perceptions of organizational ethicality when they perceived the observed unethical behavior to be more controllable by the organization.

Moderators

I hypothesized (Hypothesis 4a) that POS would moderate the negative relationship between Severity and Organizational Satisfaction such that higher levels of relationship quality would intensify the relationship. Results indicated a non-predicted negative and nonsignificant POS X Severity interaction for Organizational Satisfaction ($\beta = -.126$), $t(3,282) = -.825$, $p = ns$, thus not lending support for Hypothesis 4a.

Hypothesis 4b predicted the negative relationship between Severity and Organizational Ethicality would be moderated by POS. More specifically, that POS would strengthen the negative relationship. Results indicated a non-predicted negative and nonsignificant POS X

Severity interaction for perceptions of organizational ethicality ($\beta = -.052$), $t(3,282) = -.693$, $p = ns$, thus not lending support for Hypothesis 4b.

Hypothesis 5a predicted that POS would moderate the negative relationship between Consensus and Organizational Satisfaction such that higher levels of relationship quality would intensify the relationship. Results indicated a positive yet nonsignificant POS X Consensus interaction for Organizational Satisfaction ($\beta = .476$), $t(3,282) = .887$, $p = ns$. Although the positive intensifying effect was in the predicted direction, lack of significance indicated that Hypothesis 5a would not be supported.

Hypothesis 5b predicted the negative relationship between Consensus and Organizational Ethicality would be moderated by POS. More specifically, that POS would strengthen the negative relationship. Results indicated a positive yet nonsignificant POS X Consensus interaction for perceptions of organizational ethicality ($\beta = .238$), $t(3,282) = .909$, $p = ns$. Although the positive intensifying effect was in the predicted direction, lack of significance indicated that Hypothesis 5b would not be supported.

Hypothesis 6a predicted that POS would moderate the negative relationship between Control and Organizational Satisfaction such that higher levels of relationship quality would intensify the relationship. Results indicated a non-predicted negative and nonsignificant POS X Control interaction for Organizational Satisfaction ($\beta = -.006$), $t(3,282) = -.067$, $p = ns$, thus not lending support for Hypothesis 6a.

Hypothesis 6b predicted the negative relationship between Control and Organizational Ethicality would be moderated by POS. More specifically, that POS would strengthen the negative relationship. Results indicated a non-predicted negative and nonsignificant POS X

Control interaction for perceptions of organizational ethicality ($\beta = -.083$), $t(3,282) = -1.83$, $p = ns$, thus not lending support for Hypothesis 6b.

Hypothesis 7a predicted that Ethical Context would moderate the negative relationship between Severity and Organizational Satisfaction such that higher levels of Ethical Context would intensify the relationship. Results indicated a positive yet nonsignificant Breadth of Formal Ethical Infrastructure (BFEI) X Severity interaction for Organizational Satisfaction ($\beta = 1.16$), $t(3,282) = 1.29$, $p = ns$. The second component of Ethical Context was Informal Ethical Norms (IEN). The IEN X Severity interaction yielded non-predicted negative and nonsignificant results ($\beta = -.373$), $t(3,282) = -1.47$, $p = ns$. Hypothesis 7a was not supported.

It was hypothesized that the negative relationship between Severity and Organizational Ethicality would be moderated by Ethical Context. Ethical Context was measured by two components: Breadth of Formal Ethical Infrastructure and Informal Ethical Norms. More specifically, I hypothesized (Hypothesis 7b) that higher levels of Ethical Context would strengthen the negative relationship. The findings indicate a significant Informal Ethical Norms X Severity interaction for perceptions of organizational ethicality ($\beta = .293$), $t(3,282) = 2.35$, $p < .01$. However, there was no significant Breadth of Ethical Infrastructure X Severity interaction ($\beta = .462$), $t(3,282) = 1.04$, $p = ns$. These results indicate only partial support for hypothesis 7b, which states that Ethical Context has an enhancing effect on the negative relationship between the severity of the action and employee perceptions of Organizational Ethicality.

A plot of the interaction between Informal Ethical Norms (IEN) and Severity (see *Figure 3*) illustrates that in conditions of higher levels of Informal Ethical Norms there is a steeper, more pronounced negative slope. I interpret this as meaning that the negative relationship

between severity (as evidenced by the simple main effects) and organizational ethicality is stronger when the ethical context is strong. This lends support to hypothesis 7b which implied that the differences between the Informal Ethical Norms slopes would be different relative to each other. Following Cohen et al. (2003) subsequent simple slopes tests revealed that the slopes for both the high ($t=2.08, p <.05$) and low ($t=1.99, p <.05$) conditions of IEN were significantly different from zero.

Interestingly, when considering the relative effects of both the informal and formal components of context, finding stronger evidence for the informal context is consistent with the ethical culture literature. Empirical research evaluating both formal and informal elements of ethical culture suggests that informal elements, which indicate how things are really done in the organization (informal elements of culture), will have a stronger effect on ethical outcomes than the more superficial formal cultural elements (Tenbrunsel, Smith-Crowe, & Umphress, 2003; Weaver & Treviño, 1999).

Hypothesis 8a predicted that Ethical Context would moderate the negative relationship between Consensus and Organizational Satisfaction such that higher levels of Ethical Context would intensify the relationship. Results indicated a non-predicted negative and nonsignificant BFEI X Consensus interaction for Organizational Satisfaction ($\beta= -6.38$), $t(3,282) = -2.09$, $p=ns$. The IEN X Consensus interaction yielded positive, yet nonsignificant results ($\beta= .800$), $t(3,282) = .989$, $p=ns$. Although the positive intensifying effect for the IEN x Consensus

interaction was in the predicted direction, lack of significance indicated that Hypothesis 8a would not gain even partial support.

Hypothesis 8b predicted that Ethical Context would moderate the negative relationship between Consensus and Organizational Ethicality such that higher levels of Ethical Context would intensify the relationship. Results indicated a non-predicted negative and nonsignificant BFEI X Consensus interaction for Organizational Ethicality ($\beta = -2.44$), $t(3,282) = -1.62$, $p = ns$. The IEN X Consensus interaction yielded non-predicted negative and non significant results ($\beta = -.566$), $t(3,282) = -1.42$, $p = ns$, thus neither interaction lending support for Hypothesis 8b.

Hypothesis 9a predicted that Ethical Context would moderate the negative relationship between Control and Organizational Satisfaction such that higher levels of Ethical Context would intensify the relationship. Results indicated a positive yet nonsignificant BFEI X Control interaction for Organizational Satisfaction ($\beta = .265$), $t(3,282) = .447$, $p = ns$. The IEN X Control interaction yielded non-predicted negative and nonsignificant results ($\beta = -.292$), $t(3,282) = -2.00$, $p = ns$. Although the positive intensifying effect for the BFEI x Control interaction was in the predicted direction, lack of significance indicated that Hypothesis 9a would not gain even partial support.

Finally, Hypothesis 9b stated that the negative relationship between Control and Organizational Ethicality would be moderated by Ethical Context. As measured by Breadth of Formal Ethical Infrastructure and Informal Ethical Norms, Ethical Context did have a moderating effect. More specifically, I hypothesized that higher levels of Ethical Context would strengthen the negative relationship. Results indicate a significant informal ethical norms X control interaction ($\beta = .126$), $t(3,282) = 1.766$, $p < .05$ and Breadth of Ethical Infrastructure X

Control interaction ($\beta = .627$), $t(3,282) = 2.29$, $p = .01$ for Perceptions of Organizational Ethicality. These results indicate full support for Hypothesis 9b which states that ethical context has an enhancing effect on the negative relationship between the perceived controllability of the observed unethical behavior and employee perceptions of organizational ethicality. The plots of both interactions are illustrated by *Figure 4*, and *Figure 5*. The interaction between Breadth of Ethical Infrastructure (BFEI) and Control is illustrated in *Figure 4*. Although difference in the slopes of the high and low BFEI conditions is less pronounced, it is still discernable. The slope of high levels of BFEI is steeper than the slope of its lower level counterpart by 12%. The slope of the high condition drops 74 units, whereas the slope of the low ethical context condition drops 65 units. This indicates the negative relationship that exists between Control and Organizational Ethicality is intensified when the Breadth of Formal Ethical Infrastructure in an organization is high. A simple slopes analysis revealed that the slope for high ($t = 2.03$, $p < .05$) conditions of IEN was significantly different from zero. However, the slope for conditions of low ($t = 1.94$, $p = ns$) IEN conditions was not significantly different from zero.

Consulting the plot of the Control X Informal Ethical Norms interaction (see *Figure 5*), it can be noted that the interaction between Informal Ethical Norms (IEN) and Control is illustrated by a steeper, more pronounced negative slope for high levels of IEN. I interpret this as meaning that the negative relationship between Severity (as evidenced by the simple main effects) and Organizational Ethicality is stronger when the ethical context is strong. This, along with the results of the Breadth of Formal Ethical Infrastructure lends full support to Hypothesis 7b which predicted that the relative differences between the slopes would be different.

A third simple slopes test was conducted to determine whether the slopes of the two conditions were significantly different from zero. The post hoc analysis revealed that neither the slope for high ($t=1.51, p = ns$) conditions nor the slope for low ($t=1.43, p = ns$) conditions of IEN were significantly different from zero.

In summary, support was found for five of the 18 hypotheses. Considering the main effect hypotheses, support was found for Severity and Controllability being negatively related to lower perceptions of Organizational Ethicality (H1b & H3b). In addition, the hypothesis that Controllability of the OUB is negatively related to Organizational Satisfaction garnered support (H3a). With respect to the moderation hypotheses, none of the hypothesis (H4a, H4b, H5a, H5b, H6a, and H6b) that predicted an interaction between POS and either of the dependent variables (Organizational Satisfaction and Organizational Ethicality) was supported. Looking at another summary trend, none of the hypotheses (H4a, H5a, H6a, H7a, H8a, and H9a) that predicted interactions between both moderator variables (POS and Ethical Context) and Organizational Satisfaction were supported.

ISSUE 2: ETHICAL FAILURE RECOVERY PARADOX?

Having examined how individuals react to OUB and the degree to which contextual and individual factors influence that reaction, I next addressed the second research issue: Do organizations get a second chance, can they repair the damage caused by the unethical behavior and if so, just how far does the recovery go? The idea of a sort of redemption opportunity for an organization after a perceived failure is one that is most intriguing, especially when viewed from an ethical perspective. As may be recalled, the second purpose of this study is to determine whether an ethical failure recovery-paradox exists.

Ethical Failure Recovery

As mentioned previously, the service recovery literature provides insight into the question of whether it is possible to recover from an ethical failure. Specifically, researchers have investigated how organizations bounce back from service failures. Numerous studies provide insights into actions that organizations take in order to recover successfully from service failures (Kelly et al., 1993; Smith et al., 1999). Furthermore, some scholars even suggest that not only can organizations recover from a service failure but that it is possible that those organizations that stumble and make a successful recovery paradoxically receive higher ratings of customer satisfaction than those organizations that never stumbled in the first place. (Maxham, 2001; Smith & Bolton, 1998). Although the “service recovery paradox” has produced mixed results – with some studies supporting a paradox (e.g. Hocutt et al, 2006; Maxham & Netemeyer, 2002) and others lacking support for a paradox (e.g. Hocutt, et al, 1997; Maxham,

2001) – recent findings in the literature give us further understanding as to the cause of the mixed results. Matos et al. (2007) reported in their meta-analysis that the presence of a successful service recovery indeed had a significant positive cumulative mean effect on customer satisfaction. They noted that the mixed results in part could be attributed to boundary conditions.

Generally speaking, these results can be conceptualized as organizational failures as viewed by an important stakeholder and organizational attempts to repair the relationship with that stakeholder. Here I make an analogous argument, that ethical failure on the part of the organization represents a potential disruption in the relationship between the organization and its employees. Thus, now I explore the extent to which an organization might successfully repair that relationship

The service recovery literature focuses on the customer as the primary stakeholder whose satisfaction levels have been demonstrated to be higher when organizations can respond effectively to their complaint. In a similar fashion, I propose a subtle shift in the target from the customer's assessments of satisfaction to the employee's assessment of organizational satisfaction and organizational ethicality.

I examine the effectiveness of organizational attempts to repair damage to their ethical reputation caused by an ethical failure. These failures are identified by employees who report witnessing an unethical act on the part of their organization. The organization is then put on notice of this act through an employee report of an unethical act. Such a report allows me to identify when an ethical failure has occurred. It also lets me know that the organization is aware of it and has a stakeholder who expects something to be done in response to the report. I am then able to explore the extent to which the organization satisfactorily responds to the employee

report by asking the employee how satisfied he or she is with the organization's reaction. Based on the evidence that exists in the service recovery literature, I submit the theoretically derived hypotheses as follows:

H10: Organizations in which a recovery was attempted and employees expressed high levels of satisfaction with the attempt will have significantly higher levels of organizational satisfaction and higher levels of perceived organizational unethicality than those who belonged to organizations in which no unethical behavior was reported.

METHOD

Participants and Procedures

The respondents for study two were the same as those in study one. These were employees of 16 manufacturing and technology firms who had been asked in a survey whether they had observed any of nine specified unethical behaviors in the workplace (e.g., sexual harassment and lying to employees, customers, vendors or the public). Participants were then asked follow-up questions about whether they reported the act and the extent to which they were satisfied with the company's response to their report.

Conditions and Measures

Based on their responses to the questions, seven groups were identified and categorized into seven conditions. The first question asked "During the past year, have you personally observed conduct that you thought violated your company's standards of ethical business conduct?" Participants were provided the option to respond "Yes," "No," or "I don't know." Respondents who responded "No" became members of data condition 1. Those answering "Yes" carried through to other condition groups. Those answering "I don't know" were eliminated from the data set. Condition 1 then became the baseline against which to test the extent to which observations of unethical behavior would tarnish employee perceptions of the organization.

The second question asked "Did you report your observation of misconduct to management or other appropriate person?" Participants again were provided the option to respond "Yes," "No," or "I don't know." Respondents who answered "No" became members of

condition 2. Those answering “Yes” carried through to conditions 3 through 7, and those who answered “I don’t know” were eliminated from the study. Condition 2 allows comparisons with organizations that have committed wrong doing but have not had an explicit opportunity to make it right with the employee.

The third question asked “How satisfied were you with your company’s response to your report of misconduct?” This final question provided the respondents the opportunity to indicate the extent to which they were satisfied with the response from the organization on a five-item Likert-type scale ranging from 1 (very dissatisfied) to 5 (very satisfied). Those answering 1 (very dissatisfied) became members of group 3. Those answering 2 (dissatisfied) became members of group 4. Those answering 3 (neither satisfied nor dissatisfied) became members of group 5. Those answering 4 (satisfied) became members of group 6. Lastly, those answering 5 (very satisfied) became members of group 7. Each of these last 5 conditions provides contrasts among themselves as to the extent to which the organization can bounce back. However, for the purpose of this study and paradoxical question, condition 7 is of most interest. Condition 7 included those participants who had highest levels of satisfaction with the response from the organization to the employee’s report. The service recover literature provides insights into the conditions necessary for a recovery paradox to occur. Michel and Meuter (2008) submit that it is the uniqueness of a recovery that provides the “wow effect” (p.453) necessary for the paradox to occur. Rust and Oliver (2000) indicate that delighting customers is achieved by “having one’s expectations exceeded to a surprising degree” (p.86). Following findings in the service recovery paradox literature which indicate that in order for a recovery paradox to occur, it has to be done very well, I chose to focus exclusively on condition seven, those who were “very satisfied”. It is

this seventh condition that serves as the comparison to the baseline (condition 1) that will be used to test the paradox hypothesis (Hypothesis 10). I summarize all conditions as follows:

Condition 1: Those who did not witness an unethical event ($N=20,194$).

Condition 2: Those who did witness an unethical event, but did not report it ($N=2,224$).

Condition 3: Those who witnessed an unethical event, reported it, and were *very dissatisfied* with the company's response (recovery attempt) ($N=405$).

Condition 4: Those who witnessed an unethical event, reported it, and were *dissatisfied* with the company's response (recovery attempt) ($N=447$).

Condition 5: Those who witnessed an unethical event, reported it, and were *neutral* with the company's response (recovery attempt) ($N=526$).

Condition 6: Those who witnessed an unethical event, reported it, and were *satisfied* with the company's response (recovery attempt) ($N=549$).

Condition 7: Those who witnessed an unethical event, reported it, and were *very satisfied* with the company's response (recovery attempt) ($N=310$).

The organization's response to the employee's complaint is conceptualized as the *Recovery Attempt* by the organization. Employee levels of satisfaction with the response determined whether the recovery attempt was successful. Specifically, those employees who responded that they were "very satisfied" with the company's response to their complaint were considered as having had a "successful recovery."

Organizational Satisfaction and *Organizational Ethicality* were conceptualized as they were for Hypothesis 1. Measures of Organizational Satisfaction and Organizational Ethicality for

each of the seven conditions will not only help answer the question of whether a paradox exists, but will also provide a rich story of the road to recovery for organizations.

By examining employee evaluations of Organizational Ethicality and Satisfaction found in the field study data, I tested whether organizations in which unethical behavior is found, reported and successfully responded to (condition 7) are better off in terms of employee perceptions of Organizational Ethicality and Satisfaction than those organizations in which no such behavior is observed (condition 1).

Analysis and Results

To test the ethical recovery paradox hypothesis about perception levels of organizational ethicality and organizational satisfaction, the cases in the data set were separated based on the above criteria. A one-way analysis of variance (ANOVA) was conducted and a series of tests were conducted to compare multiple group means. Due to the unequal sample sizes (ranging between 310 and 20,194) among the conditions Tukey's HSD test was not suitable. As an alternative I chose a Scheffé test in part because it is conservative but also because it is demonstrated to be a robust test when there are unequal group sample sizes (Kirk, 1982).

Consulting the group means (with respect to *Organizational Satisfaction* and *Organizational Unethicality*) of each of the seven conditions revealed a very interesting story (see Table 8 and *Figure 6*).

Insert Table 8 Here

Insert *Figure 6* Here

I hypothesized (Hypothesis 10) that organizations in which a recovery was attempted and the employees expressed high levels of satisfaction with the results (condition 7) would have higher levels of both organizational satisfaction and organizational unethicity. A comparison of the mean levels of Organizational Satisfaction (4.22) and Organizational Ethicality (4.42) of those individuals in condition 1 with the mean levels of organizational satisfaction (4.55) and ethicality (4.61) of condition 7 (see Table 8) indicated support for Hypothesis 10. This result suggests that the service failure recovery paradox does hold in an ethical context. Indeed an ethical failure recover paradox does occur. In other words, those who reported ethical failure and also reported that they were very satisfied with the recovery had statistically significant higher ratings of *Organizational Satisfaction* and *Organizational Ethicality* than those who reported having never witnessed organizational unethical behavior.

DISCUSSION

General Observations

The purpose of this study was to look at the consequences of unethical activities that occur in organizations. More specifically, this study's aim was to explore employee reactions to organizational unethical behaviors (OUB's) and the conditions under which those reactions were intensified. Results indicated support for a negative direct effect of severity and controllability of the OUB on organizational ethicality and a negative direct effect of controllability of the OUB on organizational satisfaction. Evidence suggested that ethical context moderated the relationship between OUB controllability and perceived organizational ethicality and partial support was found for the moderating effects of ethical context on the relationship between OUB severity and perceived organizational ethicality. A second purpose of this study was to determine the extent to which organizations could recover after an unethical event. The specific research question asked whether organizations which fail in their ethical obligations can recover to a degree such that they are paradoxically "better off" than their counterparts that never failed in the first place. Results of the study indicate support for an ethical failure recovery paradox.

While testing issue 1, I was initially surprised at the differential effects of the independent variables on that the two dependent variables. Although the results of the correlation table do indicate that both dependent variables (organizational satisfaction and perceived organizational ethicality) were highly correlated (.447) at a significant level, they seemed to have drastically different relationships with severity, consensus and control. After some reflection, it seems to make sense that since independent variables were measuring specific

attributes of ethical behaviors they would logically have a stronger effect on organizational ethicality than they would on organizational satisfaction. This observation is potential evidence that those items that have a significant effect on perceptions of ethicality are possibly only tapping a small portion of organizational satisfaction.

Organizational ethicality, for example, was significantly related to both severity and control. Organizational satisfaction, on the other hand, only had a significant relationship with control. The differential effects become even starker when one considers the interaction effects. Of the 18 interactions tested, only three of them were significant (breadth of ethical infrastructure x control, informal ethical norms x control, and informal norms x severity) All of the significant interactions were with respect to organizational ethicality. None of the interaction terms that were predicted for organizational satisfaction were found to be significant. The evidence suggests that the contextual and individual factors only moderate the relationship between the act characteristics and the outcomes when I look at ethics-specific outcomes (organizational ethicality) and not the more general outcomes (organizational satisfaction). One explanation for this observation might be that organizational ethicality might mediate the relationship between act characteristics and organizational satisfaction. Another potential explanation could be that Organizational Satisfaction subsumes perceptions of Organizational Ethicality. In other words, Organizational Ethicality could be just one of many facets of Organizational Satisfaction.

An additional interesting pattern that surfaced in the results was the relative effects of both the informal and formal components of context. It was predicted in Hypothesis 7b, for example, that the negative relationship between Severity and Organizational Ethicality would be

moderated by Ethical Context as measured by two components, Breadth of Formal Ethical Infrastructure (BFEI) and Informal Ethical Norms (IEN). The results indicated a significant Informal Ethical Norms X Severity interaction for perceptions of organizational ethicality. However, there was no significant Breadth of Ethical Infrastructure X Severity interaction. Moreover, although it was not predicted, the contribution that IEN had to the overall regression model was noteworthy ($\beta = .563$), $t(3,282) = 42.16$, $p = .001$. Finding stronger evidence for the effects of informal context is consistent with the ethical culture literature. Empirical research evaluating both formal and informal elements of ethical culture suggests that informal elements, which indicate how things are really done in the organization (informal elements of culture), will have a stronger effect on ethical outcomes than the more superficial formal cultural elements (Tenbrunsel, Smith-Crowe, & Umphress, 2003; Weaver & Treviño, 1999).

Also I found it interesting that although I didn't hypothesize a direct relationship between the moderator variables and the dependent variables, I did find some significant and pronounced direct effects in the model. As shown in Table 7, POS was shown to be positively related ($\beta = .05$), $t(3,282) = 6.64$, $p < .001$, and as mentioned previously informal ethical norms had a drastic impact ($\beta = -.563$), $t(3,282) = 42.159$, $p < .001$ on organizational ethicality. With respect to the other outcome variable (organizational satisfaction), POS had a large impact and was positively related ($\beta = .42$), $t(3,282) = 25.15$, $p < .001$, and informal ethical norms also had a considerable impact ($\beta = .226$), $t(3,282) = 8.32$, $p < .001$. It is interesting to note that POS explained a great deal of variance in the model measuring organizational satisfaction. This is in line with the organizational support literature that finds a notable direct impact of POS on individual outcomes. The most interesting observation for me, however, is the strength of ethical

norms in both models ($\beta=.563$ and $\beta=.226$). This is consistent with the findings in the ethical decision-making literature in which ethical context really does matter.

One of the issues that had to be addressed in this study was how consensus would be conceptualized and measured. As you recall, none of the independent variables were supplied by the ERC so I conducted a supplemental study to get third-party ratings of each. I had initially proposed using the standard deviation of severity to gain a sense as to how much consensus there was with respect to the severity of the unethical act. As advised, I measured it directly as well. The pattern of results for both measures of consensus were similar, however when it came to subjecting the data to the regression analysis; I chose the calculated measure as it was more aligned with my conceptualization of the construct on the outset. It would be interesting to investigate the differences in future research from a measurement perspective.

Given these trends and the various analyses what do the data from the testing of the model tell us? I found support for the hypothesis (H1b) that the severity of the unethical act will have a negative impact on employee evaluations of organizational ethicality. This finding suggests that the more egregious the act the more affected employees will be by the behavior in terms of how they view the ethicality of their organization. The question that this begs is whether this is a gradient on which high and low levels of unethical behaviors are met with commensurate levels of employee perceptions of the company or is there is a level of unethical behaviors that employees are willing to tolerate or even expect within an organization before they notice that something unethical is happening? One interesting trend I noted during the analysis of these data was that a large amount of individuals when asked on the survey whether they had witnessed unethical behaviors responded, no. However, when given the opportunity

later in the survey to identify which of the unethical behaviors they had witnessed in the work place, many of those who had claimed to not have witnessed unethical behavior in the earlier item responded. As a side note, no such cases were allowed in any of the data sets in which such inconsistent answers would influence the integrity of the analysis. This occurrence however brings up an interesting potential observation. Employees may have a threshold for unethical behavior and their awareness of its occurrence is only activated upon priming.

A set of direct hypotheses for which I found support was the direct negative effect that control has on both dependent variables. Control is an interesting construct. The question stem asked the participant to what extent the organization had control over a given act. This implies that employees expect a level of protection from their organization and the very fact that an act occurs implicates the organization of wrongdoing either by omission or commission and not merely association. In this respect, control is different from severity and consensus which provide a more focused look at the actor and the observer and/or victim respectively. With severity for example, an actor within the organization may engage in an unethical act and in the mind of the victim or witness it may eventually be attributed to the organization. In contrast, control assumes a “nanny” perspective from the onset, such that any further opinions about unethical acts are further compounded in the potentially entitled mind of the observer.

Further implications of the findings of control and in the findings that support hypothesis 9b, have relevance in how we teach and train future business leaders. Traditionally ethics education models found in business schools tend to focus on either awareness and avoidance or analysis and reasoning models (Gentile, 2009). The awareness and avoidance model helps students develop an awareness of the types of ethical dilemmas they are likely to face and/or how

to avoid the further development of a dilemma all together. The analysis and reasoning models teach students to use philosophically-based decision models to decide how best to make a decision. Some researchers argue that these models are important yet inadequate (Gentile, 2009). The traditional models don't seem to adequately address the execution part of the ethical decision-making process. That is it is not enough for an actor to be aware of, avoid and make ethical choices. They need to be able to voice their argument for an ethically defensible decision. This is especially crucial for actors who do not have leadership position yet want to make a leadership choice by taking an ethical stand. Gentile (2009) proposes a "giving voice to values" approach (GVV) to ethics education. The GVV approach is premised on the idea that many of the cases in which unethical behaviors that have plagued organizations in the past, there were a number of individuals who recognized the ethical lapses and could have potentially stopped them but they didn't think that they could. GVV assumes that the potential actor is aware of their values, believes them to be correct and wants to act upon them. The disconnect occurs when they don't know how to act, to whom they should report the lapse and when it is appropriate to do so. The GVV approach proposes allowing students to practice framing and delivering compelling arguments for their values-based position. These new approaches to ethical decision making are only useful if the mechanisms exist for employees (potential actors) to have a voice.

Results from this study showed that the extent to which employees perceive that an organization has control over unethical behaviors will have a significant negative impact on the employee satisfaction and perceived ethicality levels when those acts occur. Not only was there a direct effect of control on the outcomes found but also the breadth of formal ethical

infrastructure was found to intensify that relationship. This moderation effect implies a subtle warning. It suggests that having formal ethical infrastructures in place provides employees with the opportunity to, according to the GVV model, act on their values by reporting observed unethical behaviors. However, if organizations have mechanisms through which employees who have been trained to give voice to their values, the potential benefits to the employee and the organization might be eclipsed by the perceived hypocrisy if not used thus causing the formal ethical infrastructures to have the opposite effect on employees than desired.

Overall, results from the Hypothesis testing for issue 1 revealed that only five of the 18 hypothesis tested support. Speculation as to why the results were not stronger leads me to conclude that either there is indeed on relationship between the predicted variables or that the measurements are not as strong as they should be. Based on the process by which some of the measures were derived, POS for example, I have concluded that the lack of support for the hypotheses is most likely due to measurement error. Nonetheless the predicted results as well as the post hoc findings do tell an interesting tale.

One of the most interesting results from this study is issue 2. “Does the service failure recovery paradox hold in an ethical context?” The evidence supporting hypothesis 10 suggest that it does. Even more interesting was looking at the trends (See *Figure 6*) in the various groups. Although it was not formally hypothesized, the evidence from the results tells an interesting progression of events in the reporting process of unethical behaviors. Those who witness unethical behaviors are impacted more negatively than those who don’t witness any at all yet those who actually report and are not happy with the response from the organization will become even further disappointed (lower satisfaction and perceptions of ethicality with respect to

the organization). What unfolds is a gradual progression to restoring levels of organizational satisfaction and perceptions of ethicality. Not only can organizations eventually return to satisfaction and perceptions levels but have the potential to surpass those levels. This all depends on how successful the organization is in making the employee satisfied with their response to the complaint lodged.

As mentioned throughout the study, the full ERC database was carved out into various portions for different analyses. The results of this study are especially interesting after comparing the characteristics of the participants in the full data set with those who were selected for the subsets of data. More specifically, I compared the behaviors witnessed by participants in the large ERC data set (N=27,750) with those who were selected for the constrained data set used in testing the hypotheses (N=3,282; See Table 9). The comparison demonstrates some interesting trends. In six cases, those individuals that were selected for the smaller data set (N=3,282) were less likely to have witnessed unethical behaviors. However in three cases (sexual harassment, Mis-reporting time, and Abusive Intimidating Behavior) those belonging to the smaller set – those who saw only one type of unethical behavior – were more likely to have witnessed unethical behaviors of these types. Moreover, it is these three behaviors that are reported by the largest percentage of participants. 45% of the participants in the small group (24% in the large) reported having witnessed abusive intimidating behavior, 16% of the small constrained group (Nearly 10% for the full data set) witnessed mis-reporting time, and 11.4 % of the participants in the constrained data set (9.2% in the full) reported having witnessed sexual harassment. The least witnessed behaviors were bribery (0.7% in the small and 1.5% in the large) and falsifying financial reports (0.7% in the small and 2.8% in the large). It appears that those who witnessed

only one type of behavior were much more likely to have witnessed one of the three most frequently witnessed behaviors than those who may have witnessed multiple types of behaviors. The fact that a larger percentage of the smaller groups witness certain acts may speak to the relative attention that is given to these acts in media coverage of unethical behaviors in the work place, making employees more sensitive and aware of the behaviors when they occur.

Another interesting observation with regard to reporting behaviors is that those who saw only one type of behavior were much less likely to actually report it than those who have seen at least one or more types (See Table 9). This finding, coupled with the relative high frequency of Abusive intimidating behavior, mis-reporting time, and Sexual Harassment potentially sheds light on an interesting phenomenon. One possible interpretation of this finding could be that employees are afraid of reporting specific behaviors. Reasons for hesitating could vary, however I could imagine that an employee who abused or intimidated might not report it for fear of being perceived as weak or possible retaliation. Sexual harassment is an emotionally charged issue with broad ramifications. Often times it comes down to a question of “he said – she said”. It is possible that those who observe it are victims to some extent and therefore act as such. Mis-reporting time is relatively common. One potential reason people might avoid reporting it is that they might view it as a means for the employee to bring equilibrium to what might be perceived as an inequitable relationship. In which case, this correlation might be mediated by relationship quality with organization. Other reasons could include fear of retaliation or concern that their own time reporting might be exposed to higher levels or scrutiny if they bring it to management’s attention. Interestingly, participants in this study rated mis-reporting actual hours worked as one of the least severe acts second only to withholding information.

Figure 6 illustrated an interesting trend with reporting behaviors. It demonstrated that as levels of satisfaction with the organization's response (Response Satisfaction) increased so did levels of Organizational Satisfaction and Ethicality in a relatively parallel fashion. Table 10 confirms the trends in the graphs and shows highly significant relationships among the three variables.

One final thought with regard to the ethical failure recovery paradox as illustrated in Figure 6. Up till now it has been assumed that the individuals who are in each of the last 5 conditions (e.g. those who witnessed and also reported the unethical behavior) could have witnessed any of a variety of the nine actions. This leads to the question of whether there are certain acts from which the organization can bounce back easier than others. This speaks to some extent to the question asked in issue 1 regarding the characteristics of the act itself. Determining whether specific acts are easier / harder to recover from than others would add to what we already know about Severity, Consensus and Control. Table 11 illustrates each of the nine reported unethical behaviors by type and how frequently that behavior was observed by respondents in each of the last 5 conditions. These have witnessed and reported the behavior and are responding as to their satisfaction with the organizations response to their complaint. One obvious trend is that those who belonged to an extremely dissatisfied group (Condition 3) are much greater in number than any other. The number of individuals for each condition drops steadily with each condition.

As for indications of behaviors from which is easier or more difficult to recover, I noted trends in the relative amount of behaviors observed across all conditions. More specifically, I noted that sexual harassment, mis-reporting time worked, and abusive behavior, tended to be

more representative relative to other behaviors as satisfaction with response increases. This might indicate that these behaviors are more likely to be ones from which organizations can paradoxically recover. In contrast, withholding information and discrimination seemed to decline as response satisfaction increases. This could be interpreted as representing behaviors from which it is more difficult to recover. Falsifying financial records, giving bribes, lying and stealing appear to remain relatively constant across all recovery conditions.

Limitations

As with every study there are limitations with the current study, however some of them suggest directions for future research. One major limitation is the cross sectional design of this study which captures differences among respondents at a given moment in time. This limits the ability of the data to allow me to make conclusive statements regarding causality. Designs which included supplementary longitudinal data would be helpful establishing causality among the variables.

A second and related limitation is that the method by which these data were collected was exclusively through surveys. Although the method was the same, attempts were made by the author to tap multiple sources (e.g. ERC data and the supplemental study) through questionnaires. In addition, the ERC data did vary in that some participants completed the survey with pencil and paper and others completed in online. Future research could include a multi-method design in which observations or additional archival data is used to supplement the ERC data.

A third limitation of this study was that additional tradeoffs to be made. In this study, one of the key issues was that the measures used were not established measures. Unfortunately, existing measures with robust psychometric properties were not available for this study. These data are field data collected by a third party. However, results from the factor analysis indicated that the measures had satisfactory discriminate and convergent validities. Although higher levels would have been ideal, the scale reliabilities and model fit were respectable and worth what might be considered a trade-off for the field data. Another interesting characteristic of the data is the extent to which the majority of the variables were highly correlated (See Table 6). With such high levels of correlation among so many variables it makes the estimation and interpretation of the relationships among them difficult.

One of the decisions that had to be made in the process of preparing the data set was which cases to include. For the data set used in testing the hypotheses associated with issue 1, this was particularly problematic. As was mentioned previously, some of the respondents observed more than one type of unethical behavior. This presented a challenge in that it is conceivable that individuals who witnessed multiple types of breaches in ethics would respond considerably different than those than only saw one. This became an intensity issue. To alleviate these concerns, in the current study I selected only those cases that reported observing one behavior and one only.

However, some of the respondents in the current study observed the same unethical behaviors more than once, thus creating a frequency issue. A finer grained approach to the data would include an attempt at disentangling the frequency issue. The frequency question asks how often the participant has observed conduct that they thought violated their company's standards

of ethical business conduct. The response items are 1 (rarely), 2 (occasionally), and 3 (frequently). A possible approach to this might include a similar approach that was used in this study. That is, selecting for analysis only those cases in which respondents reported seeing one and only one OUB and those who reported either 1 (rarely) or 3 (frequently). Although this frequency issue appears to be important, the effects of frequency on this study might not have as much of an impact on this study as one might initially think. If anything, increased frequencies would most likely underestimate the effects that were found in the current study. Studies in the service recovery paradox literature indicate that a service recovery paradox is less likely to occur if the violation happens multiple times. In parallel with those findings, I would speculate that the paradoxical findings of the current study would have been even more pronounced if those who observed higher frequencies of a given behavior were eliminated from the sample.

Another final challenge in this study is the wording of the nine behaviors observed as collected by the ERC. As was noted in the comments of the coders in the supplemental study, some of the behaviors were difficult to rate. They noted that within each question are multiple types of behaviors (e.g. Giving or accepting bribes, kickbacks or inappropriate gifts). Each behavior could in turn be considered separately with respect to its severity, consensus and controllability.

Future directions

This inter-disciplinary study offers some exiting insight into employee reactions to organizational unethical behaviors and looks at the extent to which those organizations can recover from ethical failures. In my journey of inquiry, I have uncovered several further

questions that might be worth noting for future directions. First, as mentioned previously in the discussion of service failure characteristics, many characteristics that are important to a service recovery context would be fascinating to study in an ethical context. Take the service recovery concept of stability for example, which seeks to determine whether the act is systemic or embedded within the systems, structures or processes of the organization or if it was merely an anomaly that with little correction or if left alone would most likely not happen again. This is especially interesting when taken in context of the four-stage theoretical model of reintegration recently put forward by Pfarrer et al., (2008). Each of the four stages takes you through the following line of questioning, three of which speak directly to the concept of stability: “What happened”, “why did it happen”, and “what organizational changes have been made to ensure it doesn’t happen again.” Empirical studies designed around testing the concept of the stability of unethical behaviors provide a nice complement to the findings of the current study.

A second concept in the services recovery literature that would have overlap with behavioral ethics and forgiveness literatures is the concept of prior experience in the services recovery literature. Prior experience provides an opportunity to ask longitudinal questions about employee reactions to unethical behaviors. Although the data supplied by the ERC does not have the longitudinal properties that would be ideal, it does contain information about how frequent individuals witness organizational unethical behaviors. This could potentially offer answers to questions such as to what extent does someone’s prior experience in dealing with unethical behaviors affect their satisfaction or ethicality perceptions of the organization,

To better understand how organizations recover from failures like this, it might be interesting to understand more fully the processes they engage in as they attempt to recover. A

third line of inquiry might include looking at employee reactions to ethical failure recovery attempts. This is subtly different from this study that looked at employee reactions to unethical behaviors (hypothesis 1) and determining whether or not the recovery paradox takes place (hypothesis 2). It might look at potential mechanisms by which this the paradox holds or not. More specifically, before they make a judgment about the outcome of the encounter, what are the employee's opinions of the process by which organizations attempt to recover, if they make any attempt at all? This could possibly be done in a lab setting as a between-subject, 2 x 2 x 2 x 2 factorial design. Participants for example could be asked to report on the *effectiveness of the recovery* (dependent variable) possibly measured by ethicality of organization, satisfaction with the effort, satisfaction with the organization, or continuance commitment. Vignettes could describe both high and low conditions of: 1) *failure recovery attributes* (independent variable) such as whether the organization initiated the process, how quickly they did so, whether or not an apology was extended or if perhaps compensation or remuneration was offered, 2) *contextual attributes* (moderator variables) which would include formal and informal ethical context, 3) *individual attributes* (moderator variable) such as perceived support measures, and 4) *unethical act attributes* (moderator variables) such as severity, stability, control or prior failures.

A fourth avenue of inquiry can also be determined by the cross-disciplinary nature of ethical decision making. Although research in business ethics in general has increased substantially in recent years (O'Fallon & Butterfield, 2005, Tenbrunsel & Smith-Crow, 2008), Wells and Schminke (2001) noted that very little empirical work has been integrated into the human resources (HR) literature. Given the lack of applied research in this field, great opportunity arises for applying ethical frameworks to HR practices, specifically those with

ethical ramifications, in future research. Wells and Schminke (2001) further noted that none of the studies covering the intersection of the ethics domain and HR practice looked explicitly at integrating ethics with training. Training for managers on how to recover from an ethical failure within their organizations might prove to be a valuable course for practitioners to pursue. Measuring those effects on both individual and organizational outcomes would be an enriching scholarly endeavor.

A fifth area of potential opportunity would be to investigate the effects of multiple failures and recovery efforts and the parameters that employees place around giving the organization another chance. If the paradox holds, how many times or how frequent can the violations be before the paradox no longer exists? Research from the services failure recovery literature (e.g. Maxham and Netemeyer; 2002; Magnini et al.; 2007) would suggest that employees in general would have little patience for repeat offenders.

Contributions

This study provides three primary contributions to the extant ethical decision-making literature. First, it integrated theoretical models from both the ethical decision-making and services recovery literatures into one model that could be used to help answer questions that have thus far been largely ignored in the literature. By not being constrained to one discipline, I was able to draw on a wealth of theoretical and empirical support from both streams of literature for the hypothesized model. The results of this study can be added to the body of evidence in both literatures to suggest that organizations can in fact redeem themselves after they have messed up.

Second, the current study answers the call by current prominent behavioral ethics scholars (e.g. Treviño et al., 2006) to investigate the consequences of unethical behaviors. As was previously mentioned in the review one of the criticisms of the ethical decision making literature is confusion in measurement, specifically between moral intent and actual behavior. This study provides measures of actual behavior. Difficulties with measuring outcomes of unethical behaviors has plagued researchers and left the field knowing very little in this regard. One of the advantages of using the field data provided by the ERC is that it is able to provide information on the consequences of unethical behaviors that for most researchers is either too difficult or cost prohibitive to get. I consider myself fortunate to have had access to these data from the ERC.

Finally, the results from this study which provide evidence of an ethical failure recovery paradox are helpful to both scholars and practitioners. For scholars, it provides a wealth of possible research questions surrounding the process, conditions under which it holds and cognitive and emotional mechanisms that enable the process. For practitioners, it is critical to understand the process and conditions under which a recovery can be made so that the correct elements (e.g. systems, structures, processes, controls and policies) can be in place to stage a successful recovery should it be necessary. Taken into consideration with the extant service recovery literature these results should be interpreted with caution. Lessons learned from the service failure recovery paradox literature might serve as guidelines in practical ethical recovery efforts until this topic is more thoroughly explored. The following can be assumed: 1) Recovery paradoxes are rare, 2) in order to attain higher levels of perceived ethicality, one must make the employee “very satisfied”, 3) employees have only a finite amount of patience for reoccurring

failures and it most likely will happen only once. In summary, although understanding how to execute a successful recovery is important, time would likely be best spent taking measures to prevent ethical failures in the first place.

APPENDIX A
FIGURES

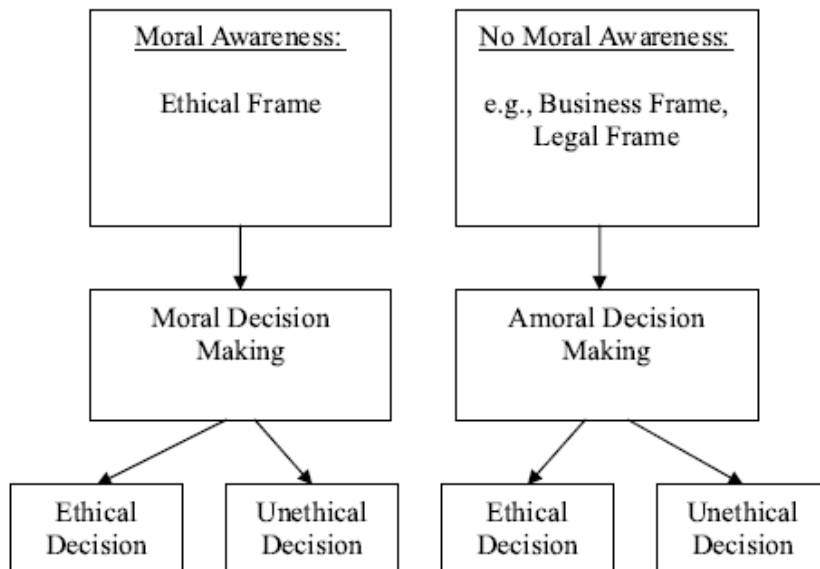


Figure 1 Inductively Derived Model of Ethical Decision Making (Tenbrunsel & Smith-Crowe, 2008)

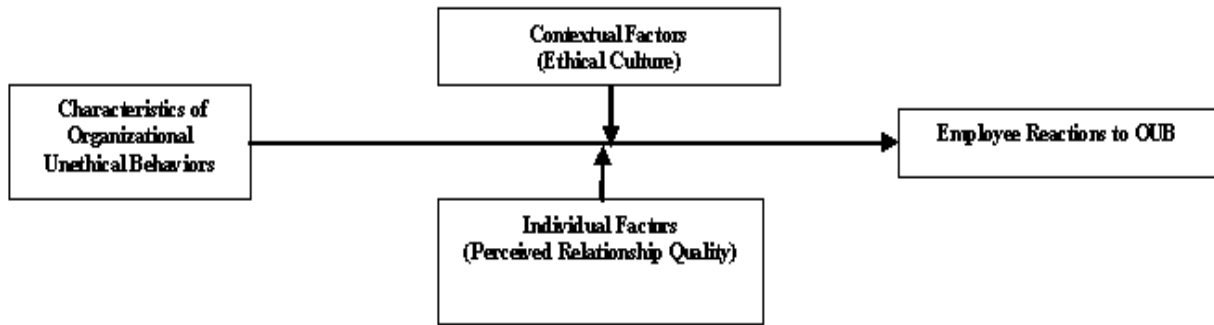


Figure 2 General Theoretical Model

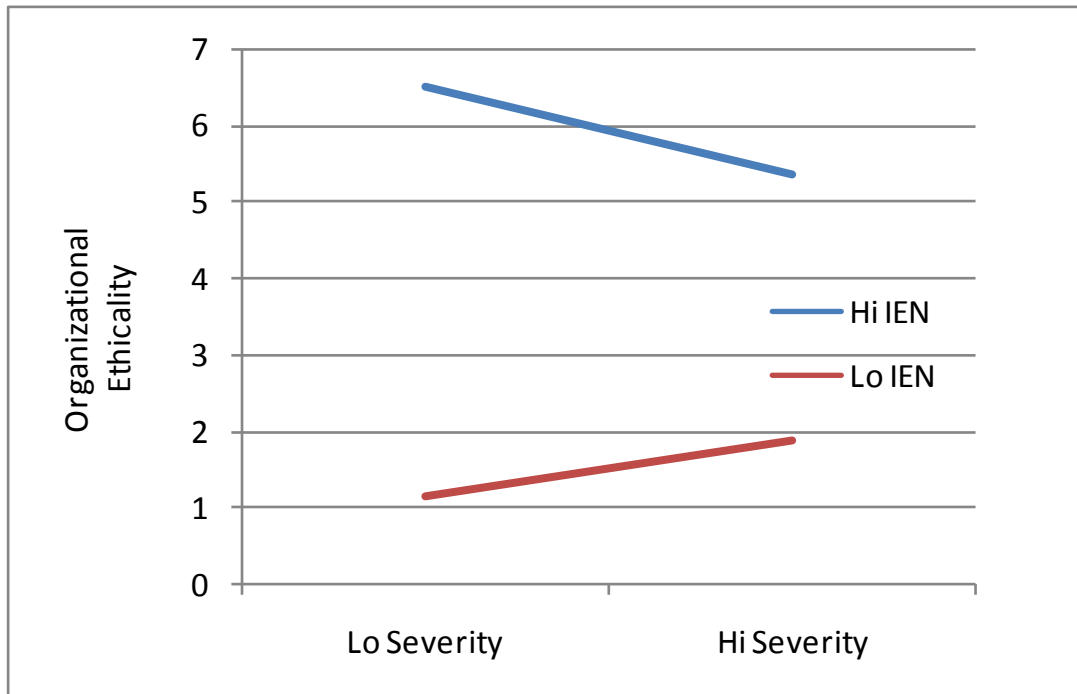


Figure 3 Interaction between informal ethical norms and severity for organizational ethicality

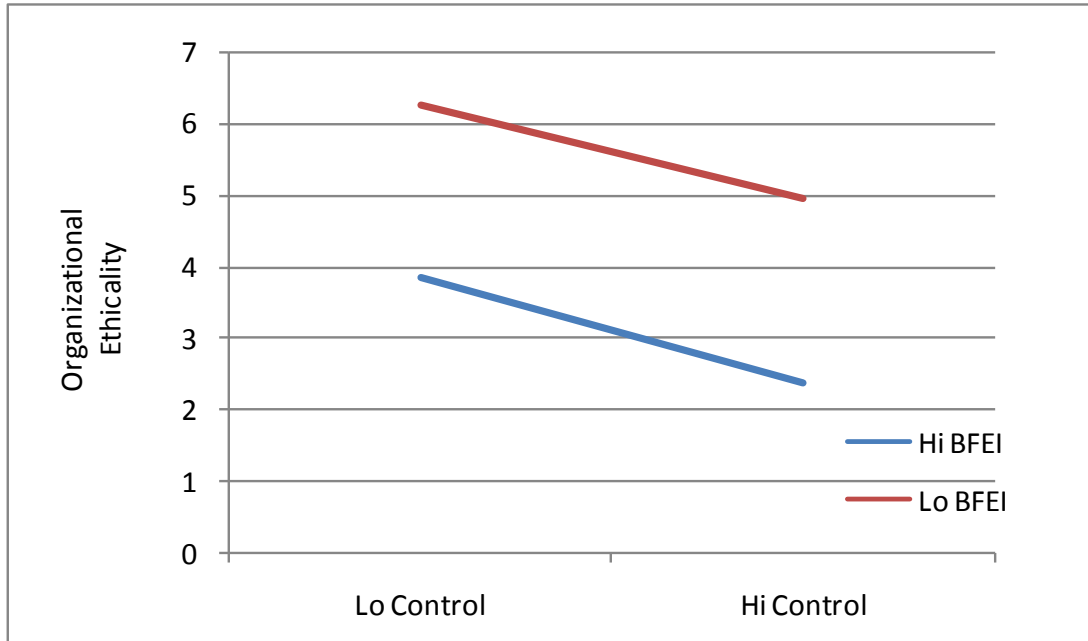


Figure 4 Interaction between breadth of ethical infrastructure and control for organizational ethicality

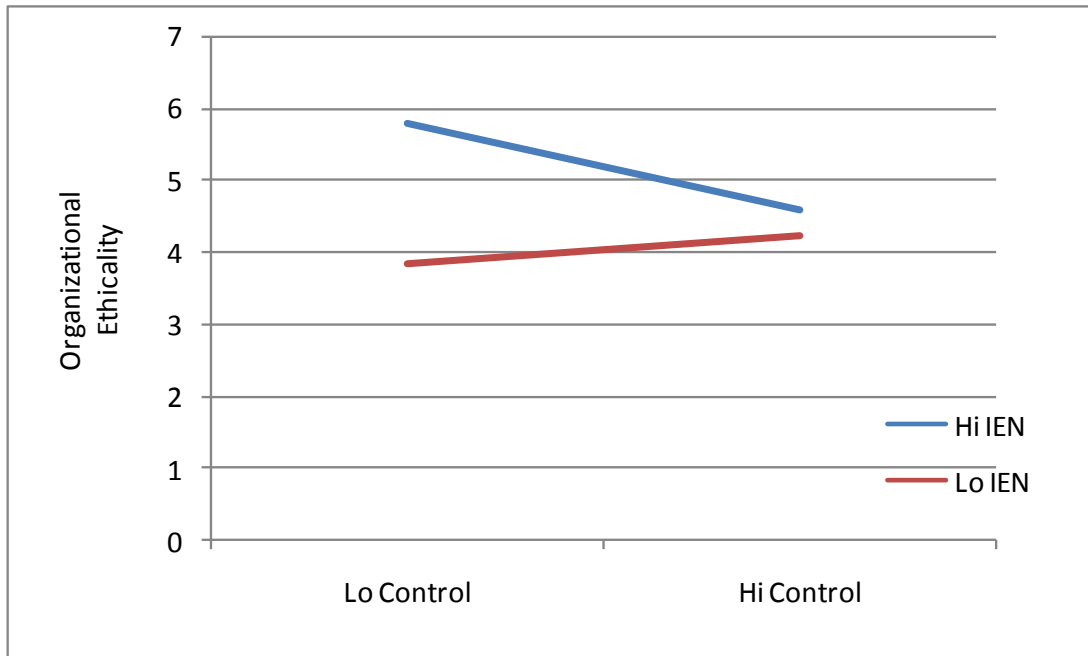


Figure 5 Interaction between informal ethical norms and control for organizational ethicality

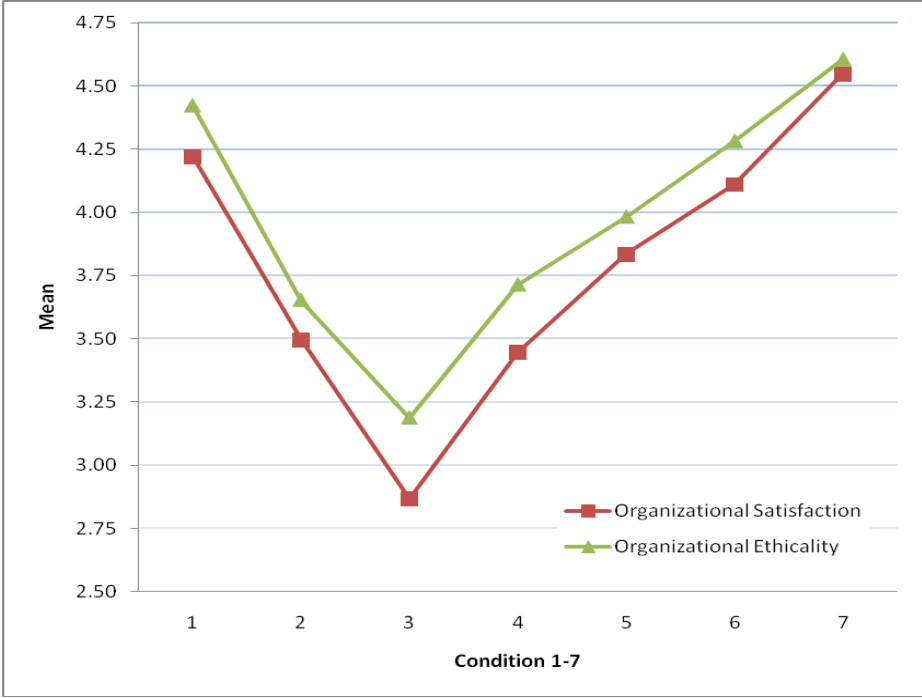


Figure 6 Means of Ethicality and Satisfaction

APPENDIX B
TABLES

Table 1 *ERC and Internet Coder Demographics*

	ERC N=29,238	ERC N=3,282	Internet Coders N=100
Age (Mean)	45	45	38
Gender M/F	75/25	75/25	65/34
Ethnicity %			
Asian	4	3	2
Black/African American	5	4	2
Hispanic / Latino (a)	4	4	4
Middle Eastern	0	0	0
Native American	1	1	0
White (Caucasian)	76	87	87
Other	1	1	5
Education			
HS	23	20	20
2yrsCol	21	19	20
Bachelor	34	35	29
Post Graduate	22	25	31

Table 2 *Descriptive Statistics for Internet Coders*

Descriptive		Mean	Std. Deviation	N
<i>Severity</i>	Sexual harassment	5.97	1.396	100
	Giving or accepting bribes, kickbacks, or inappropriate gifts	6.00	1.247	100
	Falsifying or misrepresenting financial records and reports	6.61	.920	100
	Lying to employees, customers, vendors or the public	6.10	1.185	100
	Withholding needed information from employees, customers, vendors or the public	5.61	1.310	100
	Mis-reporting actual time or hours worked	5.85	1.321	100
	Stealing, theft or related fraud	6.53	1.003	99
	Abusive or intimidating behavior toward employees	6.01	1.322	100
	Discrimination on the basis of race, color, gender, age or similar categories	6.13	1.201	99
<i>Consensus 1</i>	Sexual Harassment	6.04	1.024	100
	Giving or accepting bribes, kickbacks, or inappropriate gifts	5.60	1.269	99
	Falsifying or misrepresenting financial records and reports	6.19	.916	98
	Lying to employees, customers, vendors, or the public	5.48	1.265	99
	Withholding needed information from employees, customers, vendors or the public	4.92	1.440	99
	Mis-reporting actual time or hours worked	5.20	1.421	100
	Stealing, theft or related fraud	6.21	1.052	99
	Abusive or intimidating behavior toward employees	5.56	1.388	100
	Discrimination on the basis of race, color, gender, age or similar categories	5.88	1.140	100
<i>Consensus 2*</i>	Sexual Harassment	.72	-	100
	Giving or accepting bribes, kickbacks, or inappropriate gifts	.80	-	100
	Falsifying or misrepresenting financial records and reports	1.09	-	100
	Lying to employees, customers, vendors, or the public	.84	-	100
	Withholding needed information from employees, customers, vendors or the public	.76	-	100
	Mis-reporting actual time or hours worked	.76	-	100
	Stealing, theft or related fraud	1.00	-	99
	Abusive or intimidating behavior toward employees	.76	-	100
	Discrimination on the basis of race, color, gender, age or similar categories	.83	-	99
<i>Control</i>	Sexual harassment	4.44	1.209	100
	Giving or accepting bribes, kickbacks, or inappropriate gifts	4.80	1.239	100
	Falsifying or misrepresenting financial records and reports	5.41	1.138	100
	Lying to employees, customers, vendors, or the public	4.74	1.515	100
	Withholding needed information from employees, customers, vendors or the public	5.11	1.511	99
	Mis-reporting actual time or hours worked	4.68	1.270	100
	Stealing, theft or related fraud	4.53	1.185	100
	Abusive or intimidating behavior toward employees	4.72	1.364	100
	Discrimination on the basis of race, color, gender, age or similar categories	5.18	1.201	100

*Note: Consensus 2 does not have a mean nor standard deviation because it is calculated by deriving the inverse of the standard deviation for each of the 9 severity items. (e.g. the standard deviation of the Severity of Sexual harassment = 1.396. $1/1.396=0.72$)

Table 3 *Descriptive Statistics for Informal Ethical Norms EFA Promax Oblique Rotation*

Item	Mean	Std.	N
		Deviation	
1. My supervisor supports me in following my company's ethical standards	4.25	.758	1356
2. My coworkers support me in following my company's standards of ethical behavior	4.05	.715	1305
3. Top management in my company talks about the importance of ethics and doing the right thing in the work we do	4.17	.780	1362
4. I trust that top management in my company will keep their promises and commitments	3.65	1.071	1363
5. My supervisor talks about the importance of ethics and doing the right thing in the work we do	3.98	.909	1451
6. I trust that my supervisor will keep his or her promises or commitments	4.00	1.006	1381
7. My coworkers carefully consider ethical issues when making work-related decisions	4.04	.779	1337
8. My coworkers talk about the importance of ethics and doing the right thing in the work we do	3.72	.881	1366
9. Managers are held accountable if they are caught violating my company's ethics standards	3.89	.963	1242
10. Non-management employees are held accountable if they are caught violating my company's ethics standards	4.08	.792	1313
11. My supervisor disciplines employees who violate my company's ethical standards	3.83	.910	925

Table 4 *Descriptive Statistics for Organizational Ethicality EFA Promax Oblique Rotation*

Item	Mean	Std. Deviation	N
1. My company deals fairly with customers who receive its products and / or services	4.84	.629	1335
2. In your company's daily operations how often is the value of honesty practiced?	4.52	.913	1370
3. In your company's daily operations how often is the value of respect practiced?	4.06	.870	1304
4. Overall, the head of the company sets a good example of ethical business behavior	4.16	.856	1432
5. Overall, my supervisor sets a good example of ethical business behavior	4.09	.701	1366
6. Overall, my co-workers set a good example of ethical business behavior	4.24	.666	1243
			733

Table 5 *Confirmatory Factor Analysis of Nested Models of Ethical Norms and POS*

Model	Description	χ^2	df	Comparative fit index	Normed fit index	RMSEA	Change from Model 2	
							$\Delta\chi^2$	Δdf
1	One-factor model ^a	4068.33	65	0.91	0.9	0.137		
2	Two- factor model ^{b,c}	3747.81	64	0.91	0.91	0.132	320.52	1

Note. $N = 3,282$. POS = perceived organizational support. Chi-squares are significant at $p < .001$. ^aAll POS and informal ethical norms included in one global model. ^bPOS (all POS items), Informal ethical norms (all informal ethical norms items). ^cHypothesized model.

Table 6 Means, Standard Deviations, and Correlations

Variable	M	SD	1	2	3	4	5	6	7	8	9	10	11
1. Severity	5.98	0.16	-										
2. Consensus	0.77	0.05	.681 **	-									
3. Control	4.76	0.21	-.088 **	.406 **	-								
4. Percived Organizational Support	3.65	0.84	.007	-.060 **	-.142 **	(.62)							
5. Breadth of Formal Ethical Infrastructure	0.94	0.13	-.006	-.017	-.037 *	.217 **	-						
6. Informal Ethical Norms	3.95	0.54	.025	-.064 **	-.111 **	.616 **	.330 **	(.88)					
7. Organizational Ethicality	4.32	0.45	-.015	-.062 **	-.100 **	.519 **	.245 **	.742 **	(.70)				
8. Organizational Satisfaction	4.11	0.74	.004	-.048 **	-.108 **	.583 **	.131 **	.447 **	.444 **				
9. Age	45.04	11.18	.014	-.021	.034	.058 **	.041 *	.072 **	.070 **	.055 **	-		
10. Ethnicity	0.87	0.33	-.078 **	-.074 **	-.113 **	-.046 *	.044 *	.006	.070 **	-.023	.078 **	-	
11. Education	15.30	2.15	-.047 **	-.002	.047 **	.110 **	.096 **	.196 **	.199 **	.001	-.070 **	.042 *	-
12. Gender	0.75	0.44	-.010	.018	.058 **	-.041 *	.010	-.002	-.025	-.089 **	.105 **	.043 *	.157 **

N=3282. Values in parentheses along the diagonal are reliability estimates (Chronbachs alpha) ** $p < 0.01$, * $p < 0.05$ (2-tailed).

Table 7 *Regression Analysis Results Predicting Organizational Ethicality and Organizational Satisfaction.*

Independent Variable	Organizational Ethicality			Organizational Satisfaction		
	Step 1	Step 2	Step 3	Step 1	Step 2	Step 3
Age	0.056***	0.058***	0.014*	.069***	.075***	0.021
Ethnicity	0.025***	0.022***	0.027***	-.004	-.013	0.009
Education	0.09***	0.092***	0.025***	.017	.021*	-0.047***
Gender	0.076***	0.07***	0.038***	.161***	.152***	.099***
Severity		0.041	-0.128**		-.062	-.138
Consensus2		-0.181	0.37		.044	.276
Control		-0.196***	-0.074*		-.410***	-.119*
POS		0.055***	0.055***		.421***	.421***
Breadth of Formal Ethical Infrastructure (BFEI)		-0.038	-0.038		-.134	-.134
Informal Ethical Context (IEN)		0.563***	0.563***		.226***	.226***
POSxSeverity			-0.052			-.126
POSxConsensus2			0.238			.476
POSxControl			-0.083			-.006
BFEIx Severity			0.462			1.16
BFEI X Consensus2			-0.437			-6.38
BFEI X Control			0.627*			.265
IEN X Severity			0.293**			-.373
IEN X Consensus2			-0.566			.800
IEN X Control			0.1265*			-.292
R ²	.06	.58	.58	.012	.36	0.36

Note. * significant at < .05 level, ** significant at < .01 level, *** significant at < .001 level. All tests are two-tailed tests

Table 8 *Changes in Organizational Satisfaction and Organizational Ethicality Among Conditions*

Group	Organizational Satisfaction			Organizational Ethicality			N
	Mean	Baseline	Sig	Mean	Baseline	Sig	
1. No OUB witnessed (Baseline)	4.22	-	-	4.42	-	-	20194
2. OUB witnessed but not reported	3.50	-0.72	.000	3.65	-0.77	.000	2224
3. OUB witnessed reported and very dissatisfied with response	2.87	-1.35	.000	3.19	-1.24	.000	405
4. OUB witnessed reported and dissatisfied with response	3.45	-0.77	.000	3.72	-0.71	.000	447
5. OUB witnessed reported and neutral with response	3.83	-0.39	.000	3.98	-0.44	.000	526
6. OUB witnessed reported and satisfied with response	4.11	-0.11	.094	4.28	-0.14	.000	549
7. OUB witnessed reported and very dissatisfied with response	4.55	0.33	.000	4.61	0.18	.000	310

Table 9 Act reporting behavior in the full and constrained data sets.

Behavior Witnessed	Percentage of employees who reported witnessing the behavior	
	Constrained	
	Data Set N = 3,282	Full Data Set N=29,238
Sexual Harassment	11.4	9.2
Bribes, kickbaks or inappropriate gifts	0.7	1.5
Falifying financial reports	0.7	2.8
Lying	5.4	11.3
Withholding information	8.2	10.5
Mis-reporting time	16.1	9.6
Stealing, theft	2.1	2.9
Abusive intimidating behavior	45.3	24.1
Discrimination	9.6	11.1
Total number of cases observed	3,282	5,462
Total cases that were reported	391	2,600

Note: Constrained Data Set in which only 1 type of violation witnessed.
Full Data Set in which multiple types could be observed N=29,238

Table 10 *Means, Standard Deviations, and Correlations*

	<i>M</i>	<i>SD</i>	1	2	3
1 Response Satisfaction	2.95	1.31	-		
2 Organizational Satisfaction	4.11	0.82	.501**	-	
3 Organizational Ethicality	4.32	0.56	.597**	.606**	(0.7)

N=2275. Values in parentheses along the diagonal are reliability estimates (Cronbach's alpha) ** $p < 0.01$.

Table 11 *Reported Unethical Behaviors by Type and Recovery Condition*

Reports of Unethical Behavior	Recovery Condition				
	3	4	5	6	7
1. Sexual harassment	9% (163)	9% (121)	10% (122)	13% (124)	14%
2. Giving or accepting bribes, kickbacks, or inappropriate gifts	3% (57)	2% (28)	2% (23)	2% (16)	2%
3. Falsifying or misrepresenting financial records and reports	6% (119)	5% (67)	4% (47)	6% (54)	6%
4. Lying to employees, customers, vendors or the public	15% (282)	17% (235)	17% (195)	14% (132)	11%
5. Withholding needed information from employees, customers, vendors or the public	12% (229)	15% (204)	14% (168)	10% (96)	7%
6. Mis-reporting actual time or hours worked	11% (197)	13% (172)	13% (159)	15% (146)	19%
7. Stealing, theft or related fraud	17% (318)	4% (52)	3% (37)	5% (45)	6%
8. Abusive or intimidating behavior toward employees	17% (312)	22% (306)	25% (297)	25% (233)	27%
9. Discrimination on the basis of race, color, gender, age or similar categories	10% (193)	13% (173)	11% (126)	10% (96)	7%
Total Reports of Unethical Behavior	1870	1358	1174	942	

APPENDIX C
IRB LETTER



University of Central Florida Institutional Review Board
Office of Research & Commercialization
12201 Research Parkway, Suite 501
Orlando, Florida 32826-3246
Telephone: 407-823-2901, 407-882-2012 or 407-882-2276
www.research.ucf.edu/compliance/irb.html

Notice of Exempt Review Status

From: UCF Institutional Review Board
FWA00000351, Exp. 10/8/11, IRB00001138

To: James L. Caldwell

Date: February 06, 2009

IRB Number: SBE-09-06005

Study Title: Employee Reactions to Organizational Ethical Failures

Dear Researcher:

Your research protocol was reviewed by the IRB Chair on 2/6/2009. Per federal regulations, 45 CFR 46.101, your study has been determined to be **minimal risk for human subjects and exempt** from 45 CFR 46 federal regulations and further IRB review or renewal unless you later wish to add the use of identifiers or change the protocol procedures in a way that might increase risk to participants. Before making any changes to your study, call the IRB office to discuss the changes. **A change which incorporates the use of identifiers may mean the study is no longer exempt, thus requiring the submission of a new application to change the classification to expedited if the risk is still minimal.** Please submit the Termination/Final Report form when the study has been completed. All forms may be completed and submitted online at <https://iris.research.ucf.edu>.

The category for which exempt status has been determined for this protocol is as follows:

2. Research involving the use of educational tests (cognitive, diagnostic, aptitude, achievement), survey or interview procedures, or the observation of public behavior, so long as confidentiality is maintained.
 - (i) Information obtained is recorded in such a manner that the subject cannot be identified, directly or through identifiers linked to the subject, **and/or**
 - (ii) Subject's responses, if known outside the research would not reasonably place the subject at risk of criminal or civil liability or be damaging to the subject's financial standing or employability or reputation.

A **waiver of documentation of consent** has been approved for all subjects. Participants do not have to sign a consent form, but the IRB requires that you give participants a copy of the IRB-approved consent form, letter, information sheet, or statement of voluntary consent at the top of the survey.

All data, which may include signed consent form documents, must be retained in a locked file cabinet for a minimum of three years (six if HIPAA applies) past the completion of this research. Any links to the identification of participants should be maintained on a password-protected computer if electronic information is used. Additional requirements may be imposed by your funding agency, your department, or other entities. Access to data is limited to authorized individuals listed as key study personnel.

On behalf of Tracy Dietz, Ph.D., UCF IRB Chair, this letter is signed by:

Signature applied by Joanne Miratori on 02/06/2009 03:43:31 PM EST

A handwritten signature in cursive script that reads "Joanne Miratori".

IRB Coordinator

APPENDIX D
QUESTIONNAIRE

Instructions

Today you will be asked a series of questions regarding employee behaviors in the work place.

There are five short sections. The first lets us learn a little about you. The second, third and fourth sections give us an idea of what you think about a variety of workplace behaviors. The last section gives you the opportunity to give us any reactions you have to this survey.

The entire study should not take more than 7 minutes to complete.

Please read the following informed consent and then proceed to answer the questions.

Informed Consent

Researchers at the University of Central Florida (UCF) study many topics. To do this we need the help of people like you who agree to take part in a research study. You are being invited to take part in a research study which will include about 200 people. You can ask questions about the research. You can read this form and agree to take part right now, or take time to study it before you decide. You will be told if any new information is learned which may affect your willingness to continue taking part in this study.

I am James Caldwell, a doctoral candidate in the Management Department in the College of Business. As a graduate student I am being guided by my advisor Dr. Marshall Schminke, a UCF faculty supervisor in the Management Department.

Participation Requirements: You have been asked to take part in this research study because you **have worked or are currently working** in an organization. You **must be 18 years of age** or older to be included in the research study.

Study title: Employee Reactions to Organizational Ethical Failures

Purpose of the research study: The purpose of this study is to better understand how unethical behaviors affect people at work.

What you will be asked to do in the study: In this study you will be asked to evaluate behaviors that are sometimes observed in the workplace.

Voluntary participation: You should take part in this study only because you want to. There is no penalty for not taking part, and you will not lose any benefits. You have the right to stop at any time. Just tell the researcher that you want to stop. You will be told if any new information is learned which may affect your willingness to continue taking part in this study.

Location: This survey will be administered in class.

Time required: This survey will be administered only once and should take **no longer than 7 minutes** to complete.

Risks: There are no expected risks for taking part in this study. You do not have to answer every question or complete every task. You will not lose any benefits if you skip questions or tasks.

Benefits: As a research participant you will not benefit directly from this research, besides learning more about how research is conducted.

Compensation or payment: There is no direct compensation for taking part in this study. It is possible, however, that extra credit may be offered for your participation, but this benefit is at the discretion of your instructor. If you choose not to participate, you may notify your instructor and ask for an alternative assignment of equal effort for equal credit. There will be no penalty.

Anonymous research: This study is anonymous. That means that no one, not even members of the research team, will know that the information you gave came from you.

Study contacts for questions about the study or to report a problem:

James Caldwell
Doctoral Candidate
Management Department
College of Business
407- 473-2536
jcaldwell@bus.ucf.edu

or

Dr. Marshall Schminke
Management Department
College of Business
407- 823-2932
mshcminke@bus.ucf.edu

IRB contact about your rights in the study or to report a complaint: Research at the University of Central Florida involving human participants is carried out under the oversight of the Institutional Review Board (UCF IRB). For information about the rights of people who take part in research, please contact: Institutional Review Board, University of Central Florida, Office of Research & Commercialization, 12201 Research Parkway, Suite 501, Orlando, FL 32826-3246 or by telephone at (407) 823-2901.

If you decide to participate, completion of this study will constitute your consent.

Thank you for your consideration.

We first would like to know a little about you. Please complete the following questions. All information will be entirely confidential with access limited to only the investigators on the project.

1. Age _____

2. *Which of the following best describes your ethnic or racial background? If none of the choices fit you, please write your ethnicity under "other."*

- | | |
|-----------------------------------|--|
| 1. _____ African American / Black | 7. International (please specify)
_____ |
| 2. _____ Asian America | 8. Biracial (please specify)
_____ |
| 3. _____ Caucasian | 9. Other (please specify)
_____ |
| 4. _____ Hispanic | |
| 5. _____ Latino/a | |
| 6. _____ Native-American | |

3. Gender: Female _____ Male _____

4. *Highest level of education completed (please check):*

- High school _____
Undergraduate College
 1st Year _____
 2nd Year _____
 3rd Year _____
 4th Year or above _____
Graduate or Professional School _____

5. *Which best describes the sector in which you currently work? If none of the choices fit, please write your area under "other."*

1. _____ Public
2. _____ Private
3. _____ Not-for-Profit
4. _____ Military
5. _____ Other (please specify) _____

6. *How many years of full-time work experience do you have?* _____

Now we are interested in understanding how people react to things that happen at work. In particular, we are interested in your thoughts on how people react to activities in the workplace that are often viewed as unethical.

In the following sections we are going to provide a list of several behaviors* that are often viewed as ethical violations. We like to find out from you what you think about:

(Not necessarily in this order)

1. The severity of the violation
2. How much control an organization has over the behavior exhibited
3. How much people, in general, would tend to agree the behaviors are unethical

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Sometimes employees behave unethically at work. People have different opinions about what is considered ethical. Please read the following list of employee behaviors and rate them based on your opinion of how severe of an ethical violation you believe these behaviors to be. Please select the choice that best describes your opinion.

1. Sexual harassment

1-----2-----3-----4-----5-----6-----7
(Not severe at all) (Somewhat severe) (Very severe) (Extremely severe)

2. Giving or accepting bribes, kickbacks, or inappropriate gifts

1-----2-----3-----4-----5-----6-----7
(Not severe at all) (Somewhat severe) (Very severe) (Extremely severe)

3. Falsifying or misrepresenting financial records and reports

1-----2-----3-----4-----5-----6-----7
(Not severe at all) (Somewhat severe) (Very severe) (Extremely severe)

4. Lying to employees, customers, vendors, or the public

1-----2-----3-----4-----5-----6-----7
(Not severe at all) (Somewhat severe) (Very severe) (Extremely severe)

5. Withholding needed information from employees, customers, vendors or the public

1-----2-----3-----4-----5-----6-----7
(Not severe at all) (Somewhat severe) (Very severe) (Extremely severe)

6. Mis-reporting actual time or hours worked

1-----2-----3-----4-----5-----6-----7
(Not severe at all) (Somewhat severe) (Very severe) (Extremely severe)

7. Stealing, theft or related fraud

1-----2-----3-----4-----5-----6-----7
(Not severe at all) (Somewhat severe) (Very severe) (Extremely severe)

8. Abusive or intimidating behavior toward employees

1-----2-----3-----4-----5-----6-----7
(Not severe at all) (Somewhat severe) (Very severe) (Extremely severe)

9. Discrimination on the basis of race, color, gender, age or similar categories

1-----2-----3-----4-----5-----6-----7
(Not severe at all) (Somewhat severe) (Very severe) (Extremely severe)

At times employees behave unethically at work. In some cases organizations can take steps to control or prevent these behaviors. In other cases, there is not much that an organization can do. Please rate the extent to which you believe organizations can control the following employee behaviors within the workplace. Please select the choice that best describes your opinion.

1. Sexual harassment

1-----2-----3-----4-----5-----6-----7
(No control) (Some control) (Considerable control) (Complete control)

2. Giving or accepting bribes, kickbacks, or inappropriate gifts

1-----2-----3-----4-----5-----6-----7
(No control) (Some control) (Considerable control) (Complete control)

3. Falsifying or misrepresenting financial records and reports

1-----2-----3-----4-----5-----6-----7
(No control) (Some control) (Considerable control) (Complete control)

4. Lying to employees, customers, vendors, or the public

1-----2-----3-----4-----5-----6-----7
(No control) (Some control) (Considerable control) (Complete control)

5. Withholding needed information from employees, customers, vendors or the public

1-----2-----3-----4-----5-----6-----7
(No control) (Some control) (Considerable control) (Complete control)

6. Mis-reporting actual time or hours worked

1-----2-----3-----4-----5-----6-----7
(No control) (Some control) (Considerable control) (Complete control)

7. Stealing, theft or related fraud

1-----2-----3-----4-----5-----6-----7
(No control) (Some control) (Considerable control) (Complete control)

8. Abusive or intimidating behavior toward employees

1-----2-----3-----4-----5-----6-----7
(No control) (Some control) (Considerable control) (Complete control)

9. Discrimination on the basis of race, color, gender, age or similar categories

1-----2-----3-----4-----5-----6-----7
(No control) (Some control) (Considerable control) (Complete control)

Sometimes employees behave unethically at work. However, employees may have different opinions of what is considered unethical. Consider the extent to which people, in general, would agree that the following actions are unethical. Please select the choice that best describes your opinion.

1. Sexual harassment

1-----2-----3-----4-----5-----6-----7
(Very few would agree) (Some would agree) (Many would agree) (Nearly all would agree)

2. Giving or accepting bribes, kickbacks, or inappropriate gifts

1-----2-----3-----4-----5-----6-----7
(Very few would agree) (Some would agree) (Many would agree) (Nearly all would agree)

3. Falsifying or misrepresenting financial records and reports

1-----2-----3-----4-----5-----6-----7
(Very few would agree) (Some would agree) (Many would agree) (Nearly all would agree)

4. Lying to employees, customers, vendors, or the public

1-----2-----3-----4-----5-----6-----7
(Very few would agree) (Some would agree) (Many would agree) (Nearly all would agree)

5. Withholding needed information from employees, customers, vendors or the public

1-----2-----3-----4-----5-----6-----7
(Very few would agree) (Some would agree) (Many would agree) (Nearly all would agree)

6. Mis-reporting actual time or hours worked

1-----2-----3-----4-----5-----6-----7
(Very few would agree) (Some would agree) (Many would agree) (Nearly all would agree)

7. Stealing, theft or related fraud

1-----2-----3-----4-----5-----6-----7
(Very few would agree) (Some would agree) (Many would agree) (Nearly all would agree)

8. Abusive or intimidating behavior toward employees

1-----2-----3-----4-----5-----6-----7
(Very few would agree) (Some would agree) (Many would agree) (Nearly all would agree)

9. Discrimination on the basis of race, color, gender, age or similar categories

1-----2-----3-----4-----5-----6-----7
(Very few would agree) (Some would agree) (Many would agree) (Nearly all would agree)

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