THE IMPACT OF A CORPORATE CODE OF ETHICS AND ORGANIZATIONAL JUSTICE ON SALES MANAGERS' ETHICAL JUDGMENTS AND REACTION TO UNETHICAL BEHAVIOR

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This study used an experimental design to investigate the effect of a code of ethics and employees' perceived organizational justice on sales managers' perceptions of and reaction to unethical behavior. The results indicate that sales managers are less willing to discipline a salesperson for unethical behavior when a code of ethics does not exist and when the employee has experienced organizational injustice in a promotion decision. Implications for sales managers are discussed.

INTRODUCTION

An important issue to sales managers is controlling unethical sales force behavior while achieving superior financial performance. One method that organizations have employed to develop an ethical work environment and espouse its values to employees is through the adoption of codes of ethics (Adams, Taschian and Shore 2001). A corporate code of ethics can send a powerful message to employees concerning management's expectations regarding ethical behavior (Stevens 1994). While a code of ethics is a significant way for management to encourage employees' ethical ambitions, recent research from the organizational behavior literature may help or expand our understanding of employees' response to situations that demand deciding questions of ethics. An area that may be particularly informative is organizational justice (employees' perception of fairness in the workplace). Many studies show a strong impact of this construct on employees' job satisfaction, organizational commitment, and organizational citizenship behavior (e.g., Bies and Tripp 2001; Folger and Konovsky 1989; McFarlin and Sweeney 1992). Given the important role of organizational justice in explaining employees' behavior, an opportune time appears to exist to integrate this field of research with marketing ethics. Indeed, sparse research exists specifically analyzing how employees' perceptions of the lack of organizational justice impact their willingness to engage in unethical behavior. The research that has examined these situations found that employees who perceive that they have been treated unfairly are more likely to display deviant work behavior (e. g., Kickul 2001).

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Previous research suggests that codes of ethics and management's commitment toward ethical behavior are positively related to subordinates' propensity to behave ethically (Adams et al. 2001; Hunt and Vasquez-Parraga 1993; Trevino and Ball 1992; Weaver, Trevino and Cochran 1999). When sales managers are confronted with an ethical situation involving a salesperson, they will perceive the behavior as more unethical and will recommend harsher disciplinary action when they perceive that top management has a strong commitment to an ethical climate than when upper management is less committed to creating an ethical climate in the organization. This commitment can be demonstrated through the adoption and enforcement of ethical policies. However, sales managers' willingness to discipline unethical sales force behavior may be influenced by any perceived injustice encountered by the salesperson. In other words, management's failure to treat salespeople in an ethical manner (i.e., organizational injustice) may moderate the extent to which sales managers view a salesperson's behavior as unethical.

A 2 X 2 randomized design is used to investigate sales managers' ethical judgments and disciplinary reaction to unethical sales force behavior in one of four situations: (1) the presence of a code of ethics and no organizational justice issue is present, (2) the presence of a code of ethics and an organizational justice issue is present, (3) neither a code of ethics nor an organizational issue is present, and (4) a code of ethics is not present but an organizational justice issue is present. Rationale for the design is presented below.

LITERATURE REVIEW

Organizational Justice

Organizational justice scholars typically conceptualize three types of justice—distributive, procedural, and interactional. Distributive justice—the degree to which employees perceive their rewards and punishments are related to performance inputs (Price and Mueller 1986)—focuses on content. When employees make a distributive justice decision, they are assessing if an outcome is fair (Folger and Cropazano 1998). Although distributive justice has been linked to a variety of outcomes, much research concludes that employees' feelings of inequity (distributive justice) result from dissatisfaction with outcomes such as pay and promotion (Brief 1998; Greenberg 1990; Sweeney and McFarlin 1993).

Procedural justice focuses on the perceived fairness of the process used to determine the amount of punishment or reward (Cropazano and Schminke 2001) and appears to be particularly important during a performance appraisal (Greenberg 1986). One of the important conclusions of research on procedural justice is that employees, even when they receive an unfavorable outcome, will respond more favorably when they are provided an explanation and are allowed a "voice" in the process (e.g., Bies and Shaprio 1988; Cropazano and Folger 1989). With respect to marketing ethics, when salespeople are allowed to express their opinions during a performance appraisal or promotion decision, they will perceive the decision and the organization more positively and are less prone to engage in deviant behavior than when they are not allowed to express their opinions, even when the outcome, from their point of view, is negative.

Interactional justice involves a supervisor demonstrating compassion, courtesy, and respect in interpersonal relationships with subordinates (Korsgaard, Sapienza and Schweiger 2001). According to Tyler and Bies (1990), employees' perception of fairness, (e.g., during a performance review), is influenced by the interpersonal treatment they receive from the supervisor. Employees' perceptions of justice are increased when the decision maker (e.g., the supervisor) avoids bias and provides an explanation accompanied by a justification for the decision.

Regardless of the type of organizational justice, research links organizational justice with a variety of employee outcomes such as job satisfaction (Bluedorn 1982; Dittrich and Carrell 1979; Price and Mueller 1986) and organizational commitment (Fields, Pang and Chiu 2000; Lee and Farh 1999; Folger and Konovsky 1989). An important point is that perceived employment inequity can motivate an employee to seek revenge against the organization (Bies and Tripp 2001). For example, the employee may act unethically as a remedy to the perceived injustice (e.g., offering a bribe to a buyer to obtain a sale and receive a higher commission).

Code of Ethics

Many companies report that they have codes of ethics (Adams et al. 2001). While many organizations have codes of ethics, research has produced mixed results concerning the ability of such codes to reduce unethical behavior within organizations. Some research indicates that codes of ethics have important influences on ethical behavior (Hegarty and Sims 1979) and that employees perceive ethical problems as less serious in companies where a code of ethics is present and enforced than in organizations where a code of ethics is not present (Singhapakdi and Vitell 1990). In firms where a formal code of ethics is present, employees report fewer instances of wrongdoing and judge other employees, both subordinates and supervisors, to be more ethical than employees working for companies without a formal code of ethics (Adams et al. 2001; Somers 2001).

Of course, having a code of ethics does not ensure ethical behavior. The results of other research indicate a weak or insignificant relationship between codes of ethics and ethical behavior (Akaah and Riordan and 1989; Hunt, Chonko and Wilcox 1984; Murphy, Smith and Daley 1992). One reason, perhaps, for this finding is management's failure to enforce the code. Research has consistently concluded that among the important influences on the ethical behavior of employees is the ethical behavior of managers (Akaah and Riordan 1989; Ferrell and Weaver 1978; Hegarty and Sims 1979; Hunt, Chonko and Wilcox 1984). Thus, codes of ethics, when they are enforced, can have a strong influence on discouraging employees from behaving unethically. Simply having a code of ethics is insufficient in deterring unethical behavior.

Based on the literature review, the following four hypotheses will be tested.

> **H_1**: Increases in perceived organizational injustice encountered by a salesperson will lead to decreases in sales managers' perception that a salesperson's behavior is unethical.

> **H_2**: The presence of a code of ethics that is strictly enforced will lead to an increase in sales managers' perception that a salesperson's behavior is unethical.

> **H_3**: Increases in perceived organizational injustice encountered by a salesperson will lead to a lower propensity for sales managers to discipline the employee harshly for unethical behavior.

> **H_4**: The presence of a code of ethics that is strictly enforced will lead to a higher propensity to discipline a salesperson harshly for unethical behavior.

METHODOLOGY

Sample

The questionnaire was mailed to a sample of 1,000 sales managers whose names were obtained from a firm specializing in direct mailing lists. The sales managers were randomly assigned to one of the four treatment groups. Usable questionnaires totaled 200 (20 percent). The response rate is comparable to the response rates obtained in similar studies (Singhapakdi, Vitell and Franke 1999 – 22.7 percent; Singhapakdi, Vitell and Kraft 1996 – 23 percent). The sales managers were employed in a wide variety of industries and worked for large (over $1 billion in sales) and small companies (under $5 million in sales). The demographic profile of the sample was as follows: the average age of the respondents was 47.4 years; 87 percent of the respondents were males; and they worked for their employer an average of almost 15 years. To check for the presence of nonresponse bias, a time-trend extrapolation test was used (Armstrong and Overton 1977). No significant differences between early and late respondents emerged. Therefore, nonresponse bias does not appear to be a significant problem.

Questionnaire

The study employs a 2 X 2 randomized factorial design to test a scenario involving sales force supervision (the scenarios appear in the Appendix). The two treatments are: (1) a code of ethics (presence or absence of a code of ethics) and (2) organizational justice (perceived justice vs. perceived injustice). The respondents were asked to read the scenario and assume the role of the sales manager and state their level of agreement to a series of statements.

In the scenario Chris gives a buyer an expensive gift in order to make a sale. He acknowledges that he gave the buyer a gift but contends it was the only way to close the sale. In each of the five years he has been employed with this company, Chris has been one of the best performers. In one treatment, the company either strictly enforces a code of ethics prohibiting giving gifts to purchasing managers or the company has no code of ethics. The second treatment manipulates perceived organizational justice. In the injustice condition Chris is denied an anticipated promotion and pay raise. Chris expected these rewards after his sales manager told him that he had an excellent opportunity to be promoted to a sales management position. However, the company gives the promotion to a less experienced salesperson, a turn of events that deeply and negatively affects Chris. Thus, in this manipulation, either an organizational justice issue does or does not exist.

Ethical Perceptions and Disciplinary Reactions

Respondents' ethical perceptions were assessed using a procedure similar to what has been used in previous studies (Hunt and Vasquez-Parraga 1993; Singhapakdi, Vitell and Franke 1999). They indicated their level of agreement to a single item stating that what Chris did was wrong, "It is unethical what Chris did." The statement was measured using a 7-point scale ranging from (1) strongly disagree to (7) strongly agree.

The respondents' behavioral reactions to disciplining Chris were assessed using the method employed by Hunt and Vasquez-Parraga (1993). The respondents were asked to evaluate five possible reactions to Chris' behavior and choose the one that they thought was most appropriate: (1) taking no action; (2) giving Chris an oral reprimand; (3) giving Chris a written reprimand; (4) cutting Chris' pay and placing him on probation, and (5) firing Chris. Then the scale was converted to a metric measurement scale so that the ANOVA procedure could be used to analyze the data. In order to convert the scale to a metric format, a separate group of 76 sales managers and executives were asked to evaluate the five disciplinary responses and rate them on a scale ranging from (1) no punishment to (10) very severe punishment. The group consisted of 61 men and 15 women with the average age being 43.7 years. The scale was placed below each disciplinary response. The median value was assigned to each intervention based on the responses of this pilot group of sales personnel. This procedure resulted in the following metric scale: 1 = no punishment; 3 = verbal reprimand; 6 = written reprimand; 8 = pay cut and probation; and 10 = termination.

Manipulation Check

As recommended by Perdue and Summers (1986), a manipulation check similar to the one used by Bellizzi and Hite (1989) was conducted to assess the validity of the treatments. A pretest of the scenarios was conducted using a separate group of 96 sales managers and sales executives. In the pilot studies in all four scenarios most of the respondents perceived that the salesperson's behavior was unethical. However, the pilot study respondents stated that the salesperson's behavior was less unethical and not as wrong in the scenario where the company did not have a code of ethics and an organizational injustice issue appeared. They also chose to impose less severe discipline in this scenario ($p < .001$) than in the other scenarios. These results indicate that both treatments were manipulated properly.

RESULTS

The results are presented in Tables 1 and 2. Two ANOVA analyses were performed to evaluate the hypotheses. In addition, the mean responses were examined in each manipulation to detect significant differences in sales managers' responses. Ethical judgment served as the dependent variable in the first analysis while disciplinary reaction was the dependent variable in the second equation.

Table 1
ANOVA Results for Ethical Judgments

Variable	*F* Value	Significance
Model	17.23	.000
Code of ethics	38.76	.000
Organizational justice	8.22	.005
Code X Justice	.412	.522

$R^2 = .206$, adjusted $R^2 = .194$

Table 2
ANOVA Results for Disciplinary Reaction

Variable	*F* Value	Significance
Model	19.41	.000
Code of ethics	39.14	.000
Organizational justice	17.63	.000
Code X Justice	.511	.476

$R^2 = .226$, adjusted $R^2 = .214$

The first hypothesis was concerned with the extent to which organizational justice influences sales managers' ethical perceptions and disciplinary response to unethical behavior. The first step was to test for homogeneity of variance across the groups using Levene's test of equality of error variances. The result of Levene's test is non-significant indicating that the group variances are generally equal ($F = 1.76$, $df = 3$, $p = .156$). For the first ANOVA, the results indicate that both organizational justice ($F = 8.22$, $p < .01$) and the presence of a code of ethics that is strictly enforced ($F = 38.76$, $p < .0001$) influence sales managers' ethical perceptions. Thus, hypotheses one and two are supported. They indicate that sales managers perceive that Chris' behavior is unethical. However, they perceive the salesperson's behavior as more unethical in scenario 1 (the presence of a code of ethics and where no organizational injustice issue is present) (X = 6.34) than in scenario 4 (the condition where no code of ethics is present and the salesperson experiences organizational injustice) (X = 4.71).

A second ANOVA was performed to test hypotheses three and four. The results for the ANOVA appear in Table 2. Levene's test of equality of error variances was non-significant ($F = 1.14$ $df = 3$, $p = .333$), which warrants assessing the two hypotheses. According to hypothesis three, the presence of organizational injustice will cause sales managers to discipline the salesperson less harshly for unethical behavior. The results for the second ANOVA indicate support for hypothesis three ($F = 17.63$, $p < .001$). Sales managers recommend less severe discipline when an organizational justice issue is present. Support also was found for hypothesis four. Harsher discipline is administered to the salesperson for unethical behavior when a corporate code of ethics is present ($F = 39.14$, $p < .001$). The results indicate that both organizational justice and codes of ethics are influential determinants of sales managers' disciplinary reaction to unethical sales force behavior.

Sales managers recommend harsher discipline for unethical behavior when organizational injustice is not present but a code of ethics is present (scenario 1, mean = 7.45) than in scenario 4 where no code of ethics is present and the salesperson encounters a condition of organizational injustice (mean = 4.10). In scenario one, sales managers tend to recommend either a written reprimand or cutting the salesperson's pay and placing him on probation while in scenario four more sales managers favor an oral reprimand versus other forms of punishment

CONCLUSION AND DISCUSSION

An important purpose of this study is to analyze the impact of organizational justice and its relationship to sales managers' ethical judgments and disciplinary reactions to a salesperson who has behaved unethically. The results indicate that sales managers view a salesperson's behavior as less unethical and recommend less severe discipline when the subordinate experiences organizational injustice. Research in organizational behavior indicates that dysfunctional behavior may occur when employees perceive that they have not been treated fairly regarding promotions and salary increases. The situation can be particularly disturbing for employees when they do not have a voice in the performance evaluation process and when the decision maker does not display interpersonal sensitivity toward them in the decision process (a situation that occurs in the scenario). When this situation occurs, the employee may experience decreased job satisfaction and commitment to the organization. Moreover, the net result may be a greater willingness for the employee to engage in deviant and/or unethical behavior. This study provides some evidence that one possible way to avoid salespeople acting unethically is for management to treat salespeople fairly by allowing the salesperson a voice during a performance appraisal and subsequent raise decision and to fully explain the reasons for the decision.

Some of the sales managers appear to empathize with the salesperson when he encounters organizational injustice by not receiving an anticipated promotion and pay raise. They seem to be willing to overlook somewhat the unethical behavior of the salesperson when this treatment is manipulated. This occurrence raises some interesting but possibly disturbing questions. By disciplining the salesperson less severely for unethical behavior when he has experienced organizational injustice, what message is being sent to other salespeople? Does the presence of organizational injustice justify disciplining the salesperson less severely for unethical behavior?

The study also examines the effect that a code of ethics has on ethical judgments and disciplinary reactions to unethical behavior. The study finds that the presence of a code of ethics does influence sales managers' ethical judgments and disciplinary reactions to unethical behavior. Sales managers view the salesperson's behavior as more unethical and recommend harsher discipline when the salesperson clearly violates the company's policy (as stated in the code of ethics) by giving a purchasing agent a gift in order to make a sale than in the condition when no code of ethics is present. In the condition when a code of ethics is present, the regional sales manager states that all salespeople are required to adhere to the company's code of ethics or face disciplinary action. Thus a code of ethics that is supported and enforced by upper management may deter unethical behavior. It may send a message to employees that the company takes ethical behavior seriously and will discipline employees who do not perform according to the code.

FUTURE RESEARCH AND LIMITATIONS

The results of this study also provide opportunity for a number of possibilities for future research. First, this study is one of the first to include organizational justice into an experimental design involving unethical sales force behavior. Therefore, additional research needs to be conducted to confirm the findings in this study. In addition, only two variables were manipulated. Future studies might include other factors such as the performance level of the salesperson or gender and examine their impact on ethical judgments and disciplinary reaction to unethical behavior and the other manipulated factors. Also, only one scenario was used. It involved giving a bribe to a purchasing agent. Future studies should develop additional scenarios involving other unethical behavior and survey additional groups of employees to determine if their responses are similar to the responses reported here. A limitation of this study is nonresponse bias, which is a common problem with mail surveys. Although the time-trend extrapolation test indicated that nonresponse bias might not have been a problem, having a higher response rate may provide more validity to the results.

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APPENDIX

Scenario 1[1]

You have just obtained information that one of your sales representatives, Chris, gave a buyer an expensive gift in order to make a sale. Chris has confirmed that he did give the buyer the gift but stated that it was the only way to make quota. You have no evidence that this situation has occurred before. Chris has been among the top performers in your district for the last five years. *Your company has a code of ethics strictly prohibiting giving money or gifts to a buyer in order to make a sale. Last year the regional sales manager sent a letter to all salespeople stating that unethical behavior would not be tolerated and salespeople engaging in such behavior would be punished.*

Scenario 2

You have just obtained information that one of your sales representatives, Chris, gave a buyer an expensive gift in order to make a sale. Chris has confirmed that he did give the buyer the gift but stated that it was the only way to make quota. You have no evidence that this situation has occurred before. Chris has been among the top performers in your district for the last five years. *Your company has a code of ethics strictly prohibiting giving money or gifts to a buyer in order to make a sale. Last year the regional sales manager sent a letter to all salespeople stating that unethical behavior would not be tolerated and salespeople engaging in such behavior would be punished.*

Last year during the performance review you recommended that Chris receive a promotion and subsequent increase in salary. You told Chris that he had an excellent opportunity to be promoted to a sales management position. However, when a sales management position became available, the company decided to give the promotion to another salesperson who had a marginally better level of performance but two years less experience. When you discussed the situation with Chris, he expressed disappointment and anger about the decision. He stated that he had worked hard for five years and deserved the promotion and that he had not been treated fairly. He was upset that no reason had been given to him for the decision (he was notified about the decision through an email sent to all employees). He has not acted the same way since the decision.

Scenario 3

You have just obtained information that one of your sales representatives, Chris, gave a buyer an expensive gift in order to make a sale. Chris has confirmed that he did give the buyer the gift but stated that it was the only way to make quota. You have no evidence that this situation has occurred before. Chris has been among the top performers in your district for the last five years.

Scenario 4

You have just obtained information that one of your sales representatives, Chris, gave a buyer an expensive gift in order to make a sale. Chris has confirmed that he did give the buyer the gift but stated that it was the only way to make quota. You have no evidence that this situation has occurred before. Chris has been among the top performers in your district for the last five years.

Last year during the performance review you recommended that Chris receive a promotion and subsequent increase in salary. You told Chris that *he had an excellent opportunity to be promoted to a sales management position. However, when a sales management position became available, the company decided to give the promotion to another salesperson who had a marginally better level of performance but two years less experience. When you discussed the situation with Chris, he expressed disappointment and anger about the decision and that he had not been treated fairly. He stated that he had worked hard for five years and deserved the promotion. He was upset that no reason had been given to him for the decision (he was notified about the decision through an email sent to all employees). He has not acted the same way since the decision.*

[1]The words in italics represent manipulations in the scenarios.