THE EFFECT OF ETHICAL CLIMATE AND MORAL INTENSITY ON MARKETING MANAGERS' ETHICAL PERCEPTIONS AND BEHAVIORAL INTENTIONS

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Developing an ethical work environment is important for organizations. This study investigated the influence of an ethical work climate on marketing managers' ethical decision – making. The results indicate that some elements of an ethical work climate were significantly related to marketing managers' perceived moral intensity and perception that an ethical problem existed. However, an ethical work climate is not related significantly to intentions to behave unethically. Perceived moral intensity and ethical perceptions both were significant predictors of behavioral intentions.

INTRODUCTION

News items concerning unethical and perhaps illegal behavior such as at Enron and several brokerage firms have emphasized the need for organizations to develop an ethical work climate. Ethical climate has been defined as "those aspects of work climate that determine what constitutes ethical behavior at work" (Victor and Cullen 1988, p. 101). In an effort to encourage ethical behavior among employees, many organizations have developed codes of ethics (Weeks and Nantel 1992; Adams, Taschian, and Shore 2001).

Research suggests that codes of ethics that are enforced and management's commitment toward ethical behavior are positively related to subordinates' propensity to behave ethically (Hunt and Vasquez-Parraga 1993; Weaver, Trevino, and Cochran 1999; Adams et al. 2001). Thus, one aspect of creating an ethical work environment means creating and enforcing ethical policies by punishing employees who are behaving unethically (Trevino 1992).

Research has shown that ethical climate is related to various employees' attitudes and behaviors such as job satisfaction and organizational commitment (Trevino, Butterfield, and McCabe 1998; Babin, Boles, and Robin 2000). But does an ethical work environment encourage more ethical behavior among employees? For example, Babin et al. (2000) as part of their study of the consequences of ethical climate posed the question "Are employees consistently more ethical in their actions when in a highly ethical work climate?" Few studies have investigated the effect of ethical climate on employees' ethical behavior. Where the relationship has been investigated, research has indicated that ethical climate is positively related to ethical behavior (Vardi 2001).

The major purpose of this study is to assess if ethical climate is related to marketing employees' perception of an ethical problem and their intention to behave in a similar manner. As has been done in many other studies involving marketing ethics (e.g., Bellizzi and Hite 1989; Hunt Vasquez – Parraga 1993; Schwepker, Ferrell, and Ingram 1997), this study will use scenarios involving an ethical dilemma to assess the relationship among ethical climate and marketing managers' ethical perceptions and behavioral intentions. While the major focus of this study is to determine if an ethical work climate is related to marketing managers' ethical perceptions and behavioral intentions, this study also will analyze how the moral intensity of an issue ("the extent of issue – related moral imperative in a situation" Jones 1991 p. 372) is related to an ethical work climate. Does the presence of an ethical work climate affect the extent that employees perceive an ethical problem? This study will attempt to answer this question.

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LITERATURE REVIEW

Ethical Work Climate

Ethical climate involves various components. One component that has often been mentioned as important in encouraging an ethical work climate is codes of ethics. Codes of ethics can have important influences on ethical behavior by sending a message that management expects employees to behave ethically (Hegarty and Sims 1979; Adams et al. 2001). But having a code of ethics will not alleviate unethical behavior unless management clearly communicates its expectations to employees (Weeks and Nantel 1992) and is willing to punish employees who behave unethically (Trevino and Youngblood 1990; Trevino 1992). In addition, management must behave ethically if it expects the same behavior from subordinates (Hunt, Chonko, and Wilcox 1984; Akaah and Riordan 1989). Employees will model their behavior by observing how management reacts to incidences of unethical behavior (Butterfield, Trevino, and Ball 1996).

Given the importance that organizations attribute to having an ethical work environment, several researchers have developed scales to measure ethical climate. For example, Victor and Cullen developed the *Ethical Climate Questionnaire* (ECQ). In a series of studies these researchers validated some aspects of the proposed climate types (Victor and Cullen 1987; 1988). They suggested that identifying the characteristics of ethical climate that influence employees' ethical behavior was important, although this assumption was not tested empirically. Trevino, Butterfield, and McCabe (1998) used the *ECQ* created by Victor and Cullen (1988) to assess the impact of ethical climate on employees' attitudes and behaviors. They reported that some aspects of ethical climate (i.e., law and professional code and self-interest) predicted employees' attitudes and behaviors toward unethical behavior in organizations where codes of ethics did not exist or where employees were unaware of their existence. In companies where codes of ethics existed, only one ethical climate measure (self-interest) was significantly related to observed unethical conduct. Trevino et al. (1998) also investigated the relationship between ethical climate and organizational commitment. They found that certain climate variables (i.e., an organization's concern for the community and welfare of employees) were related to increased levels of organizational commitment. Vardi (2001), using a sample of employees from a production – oriented organization, reported a significant correlation between some aspects of ethical climate and organizational misbehavior. In this company, an ethical climate emphasizing rules and regulations had the most significant influence on dissuading employees' behavioral misconduct.

In a marketing context, Schwepker et al. (1997), Paolillo and Vitell (2002), and Babin et al. (2000) have assessed ethical climate on employees' attitudes and behavior. Schwepker et al. (1997) analyzed the relationship between ethical climate and ethical conflict (value congruence between salespeople and managers regarding various ethical issues) using a sample of salespeople. These researchers used a five – item ethical climate scale that measured management's enforcement of codes and policies, adopting policies addressing unethical behavior, and reprimanding unethical behavior by employees. Schwepker et al. (1997) reported that when salespeople perceived a higher ethical climate in their organizations, they reported less ethical conflict between themselves and management.

Babin et al. (2000) assessed ethical work climate and employees' role ambiguity, role conflict, job satisfaction, and organizational commitment. Ethical climate was regressed against these four employee outcomes. Each model was significant ($p < .0001$) with R^2 ranging from .18 (role conflict) to .29 (organizational commitment) for the four models. The work of Babin and his colleagues appears to have important implications to understanding organizational behavior. Their work seems to indicate that employees who experience a more ethical work climate will be more satisfied with their jobs and be more committed to the organization's goals. Research results reported by Paolillo and Vitell (2002), however, did not support a significant relationship between organizational commitment, job satisfaction, and corporate ethical values and business managers' ethical decision making in a study involving two scenarios.

Overall, evidence is mixed concerning the relationship between an ethical work climate and its influence on employee outcomes such as ethical conflict, job satisfaction, and organizational commitment. However, some of these studies have not investigated the relationship between ethical climate and ethical behavior, although the results reported by Trevino et al. (1998) and Vardi (2001) provide some evidence that ethical climate is related to employees' observation of unethical behavior. The following hypotheses will be tested.

H_1: The presence of an ethical work climate has a positive influence on marketing employees' perceptions of an ethical situation.

H_2: The presence of an ethical work climate has a positive influence on marketing employees' willingness to engage in unethical behavior.

Perceived Moral Intensity

Another important variable influencing a person's ethical judgment is the moral intensity of an ethical situation. Jones (1991) stated that characteristics of the moral issue (moral intensity) influence ethical decision – making and behavior. According to Jones, moral intensity is comprised of six components: magnitude of consequences, social consensus, probability of effect, temporal immediacy, proximity of moral issues, and concentration of effect.

The effect of moral intensity on ethical decision – making and behavioral intentions has been investigated in several studies. Morris and McDonald (1995), using a sample of undergraduate students, found some support for Jones' (1991) typology of moral intensity influencing moral judgment for three scenarios involving an ethical issue. Social consensus was a highly significant predictor of moral judgment in each scenario ($p < .001$). However, the other moral intensity items did not predict students' moral judgment or were less significant predictors than other items. Singer (1996) analyzed certain aspects of moral intensity and found that managers' ethicality scores were predicted by the magnitude of the consequence and social consensus. Singhapakdi, Vitell, and Kraft (1996) used four scenarios to analyze the influence of perceived moral intensity on ethical perceptions and ethical intentions. Moral intensity was a significant predictor of ethical perceptions in each scenario and for ethical intentions for three of the four scenarios. The results of another study indicated that moral intensity was a significant predictor of a perceived ethical problem (Singhapakdi, Vitell, and Franke 1999). However, certain components of moral intensity were more influential in predicting a perceived ethical problem than other components. Overall, the results of prior research indicate that moral intensity is a significant predictor of a perceived ethical problem and behavioral intentions. The results from prior research provide support for the following four hypotheses.

H_3: The presence of an ethical work climate will have a positive influence on the level of marketing employees' moral intensity toward an unethical situation.

H_4: Increases in marketing employees' perceived moral intensity will lead to a higher perception that an ethical problem exists.

H_5: Increases in marketing employees' perceived moral intensity will lead to a lower willingness to engage in unethical behavior.

H_6: Increases in marketing employees' perception that an ethical problem exists will lead to a lower willingness to engage in unethical behavior.

METHODOLOGY

Sample

The questionnaire was mailed to a sample of 800 marketing managers whose names were obtained from a firm specializing in direct mailing lists. A small sample of the surveys was returned by the Post Office because of bad addresses (4 percent, 31 surveys). A total of 192 surveys were returned. However, due to missing data, only 188 questionnaires were usable (24 percent). The response rate is comparable to the response rates obtained in similar studies (Singhapakdi et al. 1999 – 22.7 percent; Bellizzi and Hasty 2001 – 18 percent). The demographic profile of the sample was as follows: the average age of the respondents was 45.9 years (range from 25 to 73 years); 70 percent of the respondents (132) were males; and they have worked for their employer slightly more than 15 years (range from 1 to 41 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

Two scenarios were used (the scenarios appear in Appendix A). The first scenario was modified from the scenario developed by Dornoff and Tankersley (1975). The second scenario was developed by Reidenbach, Robin, and Dawson (1991). In the first scenario John is a salesperson who misrepresents a product's capabilities assuming that buyers won't need some of these features. His behavior has caused his sales to increase. The sales manager is aware of the situation, but has taken no action. The second scenario involves a company that holds sales contests involving very desirable prizes. Some of the salespeople are withholding orders and pressuring buyers to purchase products in order to win the prizes.

Ethical Perceptions and Behavioral Reactions - Marketing managers' ethical perceptions and behavioral intentions were assessed using the format developed by Singhapakdi et al. (1999). They indicated their level of agreement to the following single statement, "The situation involves an ethical problem." Behavioral intentions were assessed with a single item, "I would act in the same manner as did the salesperson in the scenario." The statements were measured using a 7 – point scale ranging from (1) strongly disagree to (7) strongly agree.

Moral Intensity – Moral intensity was measured using the six – item *Moral Intensity Scale* developed by Singhapakdi et al. (1996) and adapted from items identified by Jones (1991) to be components of moral intensity. The items appear in Appendix B. The items were measured using a 7 – point scale ranging from (1) strongly disagree to (7) strongly agree. The coefficient alpha for the scale for scenario one was .84 and .90 for scenario two.

Ethical Work Climate – Three of the four scales (responsibility/trust, peer behavior, and ethical norms) from the *Ethical Work Climate* scale developed by Babin et al. (2000) were used to measure ethical work climate. The scale is comprised of four factors: responsibility/trust, peer behavior, ethical norms, and selling practices. The authors presented evidence of the scale's convergent, discriminant, and nomological validity. In this study, the fourth component from the *Ethical Work Climate* scale was not used since the three items that are part of this component involve selling practices and appear to be relevant to employees in personal selling and not to marketing managers. The coefficient alphas for the three scales were as follows: responsibility/trust – .85; peer behavior – .91; and ethical norms – .79.

Statistical Analyses

The data were analyzed using LISREL 8 (Jöreskog and Sörbom 2001). Before analyzing the two structural models, the fit of a confirmatory factor analytic (CFA) model to the observed data was evaluated to determine if the items loaded on their respective scales. A mixture of scale scores and single-item measures were used to specify the models. Ethical perceptions and behavioral intentions were measured as single indicators since they were one item scales. With respect to these measures, in order to account for measurement error when using the correlation matrix, the path linking the construct to the latent variable was fixed to the square root of the construct's coefficient alpha reliability. The measurement error was fixed to the value of one minus the alpha coefficient. This procedure has been used in other studies (Williams and Hazer 1986; Masterson 2001). Since ethical perceptions and behavioral intentions are single – item measures, no reliability can be assessed. As shown by Jöreskog and Sörbom (2001) a reliability of .85 was assigned to these two constructs.

RESULTS

Confirmatory Factor Analysis – First Scenario

The results of the CFA indicated mixed results ($\chi^2 = 316.27$, $df = 176$, $p = .00$, GFI = .86, AGFI = .82, NFI = .87, RMSEA = .066). An examination of the modification indices indicated that the fit could be improved by eliminating three items that loaded on more than one scale and/or had large standardized loadings with other variables. Specifically, one item from the moral intensity scale and two items from the peer behavior component of the *Ethical Work Climate* questionnaire were eliminated (the deleted items are shown in the appendix). Eliminating these three items improved the fit of the model, $\Delta\chi^2$ = (54, N = 188) 170.10, ($p < .01$), and overall provided a good fit (χ^2 = 146.17, df = 122, p = .07, GFI = .92, AGFI = .89, NFI = .90, RMSEA = .033). All of the factor loadings were significant ($p < .01$).

Structural Model – Scenario One

The overall fit of the hypothesized model was good (χ^2 = 146.17, df = 122, p = .07, GFI = .92, AGFI = .89, NFI = .90, RMSEA = .033). Based on support found for the model, the hypothesized relationships were assessed. According to H_1, the presence of an ethical work climate has a positive influence on marketing employees' perceptions of an ethical situation. Partial support was found for H_1. Of the three ethical climates analyzed, peer behavior was a significant predictor of marketing managers' perception of an ethical situation (β = .30). No support was found for H_2. The presence of an ethical work environment was not a predictor of marketing managers' willingness to behave in a similar manner as the salesperson in the scenario. Partial support was found for H_3. Marketing managers working in organizations with a climate of responsibility/trust had a higher level of perceived moral intensity than other marketing managers (β = .49). The other two measures of ethical work climate were not significant predictors of perceived moral intensity.

Perceived moral intensity was a direct predictor of a perceived ethical problem (β = .37). Thus, H_4 was supported. According to H_5, increases in sales managers' perceived moral intensity will lead to a lower willingness to engage in unethical behavior. The results supported H_5. Perceived moral intensity was a direct predictor of behavioral intentions to engage in unethical behavior (β = -.28). Marketing managers were less willing to behave similarly to the salesperson in the scenario if their moral intensity was higher. Also, a perceived ethical problem was a direct predictor of behavioral intentions (β = -.45), thus supporting H_6. As the marketing managers perceived the ethical problem to be greater, they were less willing to act in a manner similar to that of the salesperson. These results support the findings reported by Singhapakdi et al. (1999).

Confirmatory Factor Analysis – Second Scenario

The results for the CFA for the second scenario were somewhat different than those found for the first scenario. The fit of the model was not very good (χ^2 = 369.75, df = 176, p = .00, GFI = .84, AGFI = .79, NFI = .87, RMSEA = .077). Besides the two items from the peer behavior ethical climate scale, two items from the moral intensity scale were eliminated (the items appear in Appendix A). Eliminating these four items increased the fit of the model significantly $\Delta\chi^2$ = (92 N = 188) 274.96, ($p < .01$), and overall provided a very good fit (χ^2 = 94.79, df = 84, p = .20, GFI = .94, AGFI = .91, NFI = .93, RMSEA = .026).

Structural Model – Scenario Two

Regarding scenario two, the results of the hypothesized model were good (χ^2 = 129.46, df = 106, p = .06, GFI = .92, AGFI = .89, NFI = .92, RMSEA = .35). The results for the second scenario were somewhat different from the results found for the first scenario. Hypothesis one was supported. One measure of ethical work climate, responsibility/trust, was a significant predictor of marketing managers' perception that the salesperson's behavior involved an ethical problem (β = .29). Hypotheses two and three were not supported. No measure of ethical work climate was a significant predictor of either willingness to act in similar manner as the salesperson in the scenario (behavioral intentions) or perceived moral intensity.

Similar to the first scenario, hypotheses four, five, and six were supported. Perceived moral intensity was a direct predictor of the perception that an ethical problem existed (β = .77) and the willingness of marketing managers to act in a similar manner to the salesperson in the scenario (β = -.45). Also, a perceived ethical problem was a direct predictor of behavioral intentions (β = -.42).

Overall, for both scenarios a perceived ethical work climate had no direct effect on marketing managers' intention to act in the same manner as did the salesperson in the scenarios. Two of the ethical climate variables (peer behavior in scenario one and responsibility/trust in scenario two) were significant predictors of marketing managers' perception of an ethical problem existed in the scenarios. Only one ethical climate variable was significantly related to perceived moral intensity (responsibility/trust in scenario one). Perceived moral intensity was a significant predictor of a perceived ethical problem and behavioral intentions in both scenarios while a perceived ethical problem predicted marketing managers' willingness to behave in a similar manner in both scenarios.

CONCLUSION

The major purpose of this study was to address the question posed by Babin et al. (2000) concerning testing their measure of ethical work climate: "Are employees consistently more ethical in their actions when in a highly ethical work climate?" The results using two scenarios were mixed regarding the importance of an ethical work climate in predicting marketing managers' moral intensity to an ethical problem, the perception that an ethical problem existed or their intentions to behave in a similar way. Of the three measures of ethical work climate tested in this scenario, only two were significant predictors. An ethical work climate emphasizing ethical norms where employees are punished for behaving unethically was not a significant predictor in either scenario. However, a climate emphasizing responsibility and trust in one scenario and the behavior of peers in the second scenario were significant predictors of marketing managers' attitudes toward an ethical situation. In an ethical climate of responsibility/trust employees are treated justly and are truly committed to high moral standards in their treatment of others. In addition, the behavior of peers was important in marketing managers' perceptions that an ethical problem existed in the first scenario. In this climate, employees have performed unethical acts, acted to protect their own self-interest, and behave following the concept of "CYA" (protect yourself). In this environment, employees were less likely to perceive that the salesperson's behavior was unethical than in organizations where employees behaved differently. Overall, the results do not provide conclusive evidence if an ethical work climate influences employees' ethical behavior. Some aspects of an ethical work climate appear to influence marketing managers' responses. However, its effect may be dependent on the ethical situation or dilemma encountered by employees. Thus, an ethical work climate appears to have a moderate effect on marketing managers' ethical behavior.

Moral intensity predicted marketing managers' perceptions that an ethical issue was involved along with predicting if managers would act in the same manner as did the salesperson in the scenario (behavioral intentions). Overall, the findings indicate that perceived moral intensity is a more important variable influencing the perception that an unethical dilemma exists and marketing mangers' intentions to behave unethically than is the presence of an ethical work climate. These results confirm prior research showing a significant relationship between perceived moral intensity and perception of an ethical problem and behavioral reaction to that situation (Singhapakdi et al. 1999).

These results also indicated that increases in marketing employees' perception that an ethical problem existed led to a lower willingness to engage in unethical behavior. An important implication is that marketing managers are more willing to behave unethically when they view another employee's behavior as causing harm to few people and the consequences of the behavior as minor. These issues need to be addressed in training programs. For example, while most of the respondents viewed the behavior of the salespeople as involving an ethical problem in the first scenario (mean = 6.55), the mean response was significantly different in the second scenario (mean = 4.88). Some of the marketing managers did not perceive pressuring buyers to purchase products *now* in order to win a sales contest as unethical. They were willing to behave in the same manner. But what are the long – term consequences of this behavior? One consequence may be lost future sales for the company. Properly conducted sales contests do provide an incentive to increase sales. However, they should never have the consequences of harming future relationships with buyers. Management needs to emphasize the importance of behaving ethically. Codes of ethics, when enforced, can assist in identifying behaviors that management deems unethical and unacceptable.

Limitations

Additional research needs to be conducted to investigate how an ethical work climate is related to the ethical behavior of employees. This study used two scenarios involving an ethical problem that have been used in past research. However, researchers should investigate the relationship between ethical work environment and ethical behavior using different scenarios to ascertain if similar results can be found.

In addition, the use of scenarios does provide a limitation to assessing the relationship between ethical work climate and the ethical behavior and actions of employees. In a realistic work environment, when confronted with an ethical issue, marketing managers or other employees may respond differently. Perhaps asking employees to cite specific examples of unethical behavior in their organizations and then assessing the ethical climate may provide additional information concerning the relationship between unethical behavior and ethical climate.

Another 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, a higher response rate may provide more validity to the results.

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APPENDIX A
Scenarios

Scenario 1

John Rapp is a salesperson working for XYZ Corporation. One of his sales techniques is to misrepresent a product's capabilities and how it will perform. He assumes that customers won't use many of these features and the technique will help him to increase sales.

Action: The sales manager is aware of the situation but has taken no choice.

Scenario 2

A sales oriented company frequently holds contests to increase sales. The prized offered include expense paid vacation trips to highly desirable locations, TV sets, and other valuable merchandise.

Action: Some of the salespeople in the organization hold orders and pressure reluctant buyers to "buy now" in order to maximize sales during the time period of the contest.

APPENDIX B
Questionnaire

Work Ethical Climate Scale – Responsibility/Trust

1. All employees here are held accountable for their actions.
2. Employees here act first to further their actions.
3. People always get treated justly here.
4. Employees here are truly committed to high moral standards in their treatment of others.

Work Ethical Climate Scale – Peer Behavior

1. Employees here have performed unethical acts.
2. I've seen other employees do things that bother me from a moral viewpoint. [1]
3. Some of the people I work with do things that I feel are unethical. [1]
4. Generally, employees here simply act to protect their own self-interest.
5. Employees here do things based on the "CYA" (protect yourself) concept.
6. Employees here sometimes take revenge out on customers.

Work Ethical Climate Scale – Norms

1. If I spent a lot of time thinking about how morally right everyone is treated, I'd be really stressed out.
2. Employees acting unethically for personal gain are punished.
3. Employees acting unethically for company gain are punished.

Moral Intensity Scale

1. The overall harm (if any) done as a result of the salesperson's action would be very small. (Reversed scored)[2]
2. Most people would agree that the salesperson's action is wrong.[3]
3. There is a very small likelihood that the salesperson's action will actually cause any harm. (Reverse scored) [3]
4. The salesperson's action will not cause any harm in an immediate future. (Reverse scored)
5. If the salesperson is a personal friend of the customer, the action is wrong.[1]
6. The salesperson's action will harm very few people (if any).

[1] These items dropped after the confirmatory factor analysis in both scenarios.

[2] This item dropped after the confirmatory factor analysis in scenario one.

[3] These items dropped after the confirmatory factor analysis in scenario two.