THE INFLUENCE OF ETHICAL CONTROL SYSTEMS AND MORAL INTENSITY ON SALES MANAGERS' ETHICAL PERCEPTIONS AND BEHAVIORAL INTENTIONS

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In order to discourage employees from behaving unethically, organizations have instituted compliance – based strategies such as adopting codes of ethics and punishing employees who violate the code. However, another important way that organizations can encourage ethical behavior is to adapt a culture that emphasizes shared values (integrity – based strategy). This study analyzes how a corporation's ethical control system that encompasses both compliance and integrity – based strategies impacts sales managers' ethical perceptions and intention to behave unethically. Using two scenarios the results indicate that ethical control systems and perceived moral intensity are related to sales managers' ethical perceptions and reaction to unethical behavior.

INTRODUCTION

Headlines concerning unethical behavior at Enron and several brokerage firms have brought the issue of unethical behavior and how to control it to the forefront. In order to avoid legal and civil liability arising from employees' unethical behavior, organizations have adopted codes of ethics and disciplined employees for violating the codes. Punishing an employee for behaving unethically affects both the recipient of the punishment and other employees. It encourages individual learning for the recipient and vicarious learning for other employees (Trevino 1992).

While punishment can be an effective way to deter unethical behavior, another important element in an organization's efforts to promote ethical behavior is the development of an integrity strategy (Paine 1994). Integrity initiatives may involve components frequently found in compliance – based strategies such as codes of ethics and mechanisms for investigating and punishing unethical behavior. However, an integrity strategy involves elements other than those found in compliance – based strategies. It involves a set of guiding values that is communicated clearly and integrated throughout the organization and a commitment to moral thinking at all levels of management. An integrity initiative, therefore, emphasizes core ethical values that all managers should follow in making decisions.

Weaver, Trevino and Cochran (1999) have discussed an organization's formal ethics program as a control system incorporating both a compliance orientation and a values orientation. An ethics control program emphasizes the need for both compliance with the law and moral values established by upper management and extending throughout the organization.

The purpose of this study is to analyze how an organization's ethical control system that incorporates both a compliance orientation and a values orientation influences sales managers' ethical perceptions of and behavioral intentions toward unethical sales force behavior. In addition, the role of perceived moral intensity on ethical perceptions and behavioral intentions will be examined. While prior research has shown that perceived moral intensity is a significant predictor of moral judgment and ethical perception (Singer 1996; Singhapakdi, Vitell and Kraft 1996), no study has examined a model that includes both ethical control systems and moral intensity on employees' ethical perceptions and behavioral intentions. As is frequent practice in ethics research, two scenarios involving an ethical dilemma were used to in-

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vestigate these relationships using a national sample of sales managers. The proposed relationships are discussed below.

LITERATURE REVIEW

Ethical Control Systems

A control system is comprised of compliance and values, which are not necessarily mutually exclusive (Weaver, Trevino and Cochran 1999). Beyond economic responsibilities of producing products, businesses have legal responsibilities or ground rules which they must follow. Organizations emphasizing compliance – oriented ethics programs expect employees to obey rules. Its purpose is to prevent criminal misconduct (Paine 1994).

One method that organizations use to encourage employees to observe rules is to adopt codes of ethics. Some research indicates that codes of ethics can be important deterrents to unethical behavior (Adams, Taschian and Shore 2001). However, codes of ethics may have little meaning to employees unless management enforces the code and behaves ethically too (Akaah and Riordan 1989; Chonko and Hunt 1985). Employees form expectancies concerning punishment by observing how management uses punishment when disciplining other employees (Arvey and Jones 1985). They will refrain from misconduct if they expect that unethical behavior will be punished and the level of punishment outweighs any potential reward (Trevino 1992).

In order to create an ethical work climate management needs to do more than just comply with the law. While discipline is a necessary component in encouraging ethical conduct, corporations need to do more to encourage ethical behavior than adopt codes of ethics and punish employees for unethical behavior. According to Paine (1994, p. 111), "the task of ethics management is to define and give life to an organization's guiding values, to create an environment that supports ethically sound behavior, and to instill a sense of shared accountability among employees." While profit and efficiency are essential values within an organization's culture, a balance needs to exist between these values and other values emphasizing social responsibility (Robin and Reidenbach 1987). This philosophy describes an integrity strategy. Organizations that espouse an integrity strategy to dissuade unethical behavior adopt a corporate culture that emphasizes shared moral values and support for employees' ethical aspirations.

An integrity – based ethics program emphasizes moral thinking on the part of managers and requires managers to abstain from behaving in a manner that causes harm to others or infringes on others' rights (Paine 1994). For a program emphasizing core ethical values to be successful, the corporation needs to involve all managers in the process and develop systems for reporting unethical and/or illegal behavior (Paine 1996). Upper – level managers can influence employees' behavior by articulating the organization's core ethical values to them and reprimanding employees who choose not to follow these values (Hunt, Wood and Chonko 1989).

Research indicates that both a compliance orientation and a values orientation are positively related to management commitment to ethics (Trevino and Ball 1992; Weaver et al. 1999). These results indicate that the actions of top management are important in encouraging and controlling ethical behavior in the organization. Sales managers' perceptions that ethical problems exist will be influenced by the presence of an ethical control program. The following hypotheses will be tested.

H_{1a}: The more that top management is committed to a compliance – oriented ethics control program the more that sales managers will perceive that an ethical problem exists.

H_{1b}: The more that top management is committed to a values – orientated ethics control program the more that sales managers will perceive that an ethical problem exists.

Perceived Moral Intensity

Moral intensity of an issue refers to "the extent of issue – related moral imperative in a situation" (Jones 1991, p. 372). 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.

Several studies have investigated the effect of moral intensity on ethical decision making and behavioral intentions. Support has been found for some, if not all, of the six components of moral intensity influencing respondents' moral judgment for involving an ethical issue (Morris and McDonald 1995), ethicality score (Singer 1996), ethical perceptions and ethical intentions (Singhapakdi, Vitell and Franke 1999; Singhapakdi, Vitell and Kraft 1996). 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 hypotheses.

H_{2a}: Increases in sales managers' perceived moral intensity will lead to a higher perception that an ethical problem exists.

H_{2b}: Increases in sales managers' perceived moral intensity will lead to a lower propensity to engage in unethical behavior.

Ethical Perceptions and Behavioral Intentions

A key part of the Hunt and Vitell (1986) theory of ethics is the linkage between individual perceptions that a situation involves an ethical problem and various alternatives to resolve the problem. Other theories of marketing ethics propose a similar relationship (Dubinsky and Loken 1989; Wortuba 1990). Research results have shown support that ethical perceptions affect both the willingness to punish employees for unethical behavior and the severity of punishment administered for unethical behavior (Bellizzi and Hite 1989; Singhapakdi et al. 1999). For example, Hunt and Vasquez – Parraga (1993) reported that a marketer's decision to discipline a salesperson who has behaved unethically is primarily determined by his/her perception of the severity (ethical judgment) of the salesperson's behavior in the situation. Therefore, the following hypothesis is offered.

H_3: Increases in sales managers' perception that an ethical problem exists will lead to a lower propensity to engage in unethical behavior.

METHOD

Sample Characteristics and Procedure

The questionnaire was mailed to a sample of 700 sales managers whose names were obtained from a firm specializing in direct mailing lists. A few of the surveys were returned by the Post Office because of bad addresses (2.0 percent, 17 surveys). A total of 159 surveys were returned (23 percent). The response rate is comparable to the response rates obtained in similar studies (Singhapakdi, Vitell and Franke 1999 – 23.3 percent; Bellizzi and Hasty 2001 – 18 percent). A telephone call was made to every fifth sales manager who had not completed the questionnaire (108 sales managers). The reason for contacting only 20 percent of the sales managers who had not returned a survey was due to cost considerations. The purpose of the telephone call was to ask these sales managers to return the survey and to ascertain if nonresponse bias was a problem. A total of 92 sales managers were reached. After the telephone call, an additional 26 surveys were returned. Thus, the total response rate was 27 percent (185 responses). With respect to nonresponse bias, no significant difference was found with respect to demographic variables (age, tenure, marital status) between the sales managers contacted by telephone and those who returned a survey. Thus nonresponse bias does not appear to be a significant problem. The demographic profile of the sample was as follows: the average age of the respondents was 46.8 years (range from 25 to 73 years); about 72 percent of the respondents were males; and they have worked for their employer slightly less than 15 years (range from 1 to 41 years).

Questionnaire

Two scenarios were used in this study (both scenarios appear in Appendix A) to test the hypothesized relationships. The purpose of using two scenarios was to determine if the results obtained from the first scenario were consistent when using a second ethical situation. The first scenario was originally developed by Bellizzi and Hite (1989) while the second scenario was developed specifically for this study. In the first scenario, the salesperson deceives buyers by telling them that plant capacity is at a very high level because of his product's popularity, although plant capacity is actually low. This tactic has allowed sales to increase for the salesperson. However, one prospect has become aware of the deception and now refuses to even see the salesperson.

In the second scenario a salesperson has given a purchasing manager a large gift in order to make a sale. However, the purchasing manager's company believed the gift was a bribe and has stated that it will not purchase again from the salesperson's company. The salesperson has always made quota and no evidence exists that the salesperson has previously given gifts or bribes to purchasing managers.

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 was measured using the six – item Moral Intensity Scale developed by Singhapakdi et al. (1996) and adapted from the items identified by Jones (1991) to be components of moral intensity. The items were measured using a seven – point scale ranging from (1) strongly disagree to (7) strongly agree. The coefficient alpha for the scale for scenario one was .83 and .75 for scenario two. The scale appears in Appendix B.

The variable, ethical control systems, was measured using two scales. Three items comprised both the values orientation and compliance orientation scales. The items were developed and used by Weaver et al. (1999). The three items that comprised the compliance – orientation scale were as follows: "Employees violating ethics expectations are disciplined," "Employees failing to abide by policies will be disciplined" and "Even minor violations of ethical expectations get an employee disciplined." The coefficient alpha for the scale was .77. The three items used in the values – orientation scale were as follows: "Ethics activities and policies are orientated toward building trust and confidence," "Ethics activities and policies are oriented toward communicating the company's values," and "Encouraging shared values is prominent in my company's ethics activities." The coefficient alpha for the scale was .72.

Statistical Analyses

The data were analyzed using the LISREL 8 program (Jöreskog and Sörbom 2001). Before analyzing the 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. Marketing managers' ethical perceptions and behavioral intentions were measured as single items. With respect to these measures, in order to account for measurement error when using the covariance 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 multiplied by the variance of the measure variable. This procedure has been used in other studies (Grant, Cravens, Low and Moncrief 2001; Williams and Hazer 1986).

RESULTS

Confirmatory Factor Analysis – Scenario One

The results of the CFA for the first scenario indicated a reasonably good fit ($\chi^2 = 94.95$, $df = 69$, $p = .00$, GFI = .92, AGFI = .88, NFI = .83, RMSEA = .068). The modification indices indicated, however, that deleting one item would significantly improve the model (χ^2 (10, N = 185) = 32.44 ($p < .01$). The item deleted was the fifth item from the PMI scale (the item measuring proximity), "If the salesperson is a personal friend of the buyer, the action is wrong." All of the factor loadings were significant ($p < .01$) ranging from .45 to .67 for moral intensity, from .63 to .69 for values orientation, and .68 to .76 for compliance orientation.

Structural Model – Scenario One

The fit of the hypothesized model (Model 1) was very good ($\chi^2 = 89.4$ $df = 59$, $p = .007$, GFI = .93, AGFI = .89, NFI = .87, RMSEA = .053). Support was found for three of the hypothesized relationships. According to H_1, the more that top management is committed to a compliance – oriented ethics control program the more that sales managers will perceive that an ethical problem exists. The results supported H_{1a} ($\beta = .25$, $t = 2.99$). According to H_{1b}, the more that top management is committed to a values – oriented ethics control program the more that sales managers will perceive that an ethical problem exists. The results supported H_{1b} ($\beta = .35$, $t = 3.48$). The presence of a values – oriented ethics control program was significantly related to sales managers' perception that an ethical problem existed.

Support also was found for H_{2a} but not H_{2b}. Increases in sales managers' perceived moral intensity was significantly related to a higher perception that an ethical problem existed ($\beta = .25$, $t = 2.89$). However, perceived moral intensity was not significantly related to sales managers' behavioral intentions ($\beta = -.14$, $t = 1.72$). These results partially support the findings reported by Singhapakdi et al. (1999) in their study involving members of the American Marketing Association. These researchers found that perceived moral intensity was significantly related to both ethical perceptions and behavioral intentions. Last, support was found for hypothesis three. Increases in sales managers' perception that an ethical problem existed did lead to a lower propensity to engage in unethical behavior ($\beta = -.63$, $t = 10.12$).

The results indicated that an ethical control system was important in determining sales managers' perceptions of the sales managers. Sales managers whose company's ethics activities and policies are orientated toward building trust and confidence and communicating the company's values while encouraging shared values perceived the behavior of the salesperson as more unethical than other sales managers. The willingness of organizations to discipline employees for behaving unethically and creating an environment where ethical values are important appeared to impact the way sales managers perceived the salesperson's behavior as more ethical or unethical but not their intentions to discipline the salesperson.

Structural Model – Scenario Two

Similar to the results found for the first scenario, the CFA model indicated that the fifth perceived moral intensity item should be dropped. Dropping this item improved the model significantly (χ^2 = (10, N = 185) 23.04 and provided an excellent fit ($\chi^2 = 54.25$ $df = 41$, $p = .04$, GFI = .95, AGFI = .92, NFI = .90, RMSEA = .042).

The results of the structural model were good ($\chi^2 = 107.82$, $df = 60$, $p = .00$, GFI = .92, AGFI = .87, NFI = .87, RMSEA = .066). All of the hypothesized relationships were significant. The modification indices indicated that the fit could be improved by adding a path from perceived moral intensity to behavioral intentions $\Delta\chi^2 = (1, N = 185)$ 14.28. The overall model fit was very good ($\chi^2 = 93.54$, $df = 59$, $p = .002$, GFI = .93, AGFI = .89, NFI = .89, RMSEA = .056). The beta coefficients were as follows: compliance orientation → ethical perceptions = .27 ($t = 3.24$); value orientation → ethical perceptions = .33 ($t = 3.43$); perceived moral intensity → ethical perceptions = .29 ($t = 3.79$); perceived moral intensity → behavioral intentions = -.22 ($t = 3.79$); and ethical perceptions → behavioral intentions = -.69 ($t = 13.08$).

CONCLUSIONS

This major purpose of this study was to investigate how ethical control systems are related to ethical perceptions and behavioral intentions of sales managers. This study indicated that having a compliance – based ethical orientation strategy where employees are disciplined for violating ethics expectations and policies was important in affecting sales managers' perception that the salesperson's behavior was unethical. When sales managers were employed for firms where employees are disciplined for unethical behavior, they reported that the salesperson's behavior was more unethical. These results tend to confirm what has been reported in prior research that the behavior of upper managers influences the behavior of subordinates. Employees' expectations concerning punishment are formed by observing how other employees are punished (Arvey and Jones 1985). Their willingness to refrain from unethical behavior is a function of management's propensity to punish other employees for such behavior.

In addition, this study found that sales managers' ethical perceptions were influenced by the existence of a values – oriented ethics program within their company. Establishing an organizational culture where ethical behavior is valued appeared to influence how sales managers perceived the unethical behavior by the salesperson. Sales managers reported that the salesperson's behavior was more unethical when they were employed in companies that had policies oriented toward building trust and confidence and encouraging shared values.

The important implication is that an effective corporate strategy to encourage ethical behavior needs to incorporate an integrity – based ethics strategy that emphasizes concern for both punishing wrongdoers and guiding corporate values. An integrity strategy has other outcomes beyond decreasing unethical behavior. It can lead to increased profitability, employee morale, and a sustained association with important constituencies (Paine 1994).

This study also confirmed the importance of perceived moral intensity on employees' ethical perceptions and perhaps behavioral intentions. In both scenarios perceived moral intensity was a positive, significant predictor of ethical perceptions. However, only in the second scenario was it a significant predictor of sales managers' intention to act in a similar manner as did the salesperson. Higher levels of PMI led to a lower propensity to behave unethically. These results partially confirm the results reported by Singhapakdi et al. (1999). In their study, Singhapakdi et al. found that PMI was a significant predictor of both ethical perceptions and behavioral intentions. Interestingly, in their study these researchers found that PMI had a stronger relationship with behavioral intentions than it did with ethical perceptions. In scenario two, where PMI was a significant predictor of both ethical perceptions and behavioral intentions, the path coefficient from PMI to behavioral intentions was lower than from PMI to ethical perceptions. Perhaps the results are situation specific. Future research should attempt to replicate the results reported in this study as those findings reported by Singhapakdi et al.

This study has several limitations. As is inherent in most studies involving a mail survey, nonresponse bias is a potential problem. While the telephone calls that were made to a portion of the sales managers who had not returned a survey showed no significant differences regarding demographic variables, nonresponse bias is a potential problem when the response rate is around 26 percent. Another limitation is the use of only two scenarios to analyze the opinions of sales managers. Ethical dilemmas can arise from many situations. This study used two scenarios that represent realistic situations that can occur in sales (misrepresentation and gift giving). However, analyzing how sales managers react when confronted with actual instances of unethical behavior may be a more realistic method to study the affect of the variables in this study than using scenarios.

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TABLE 1
Goodness of Fit Indices for Scenario 1

Model	DF	χ^2	GFI	AGFI	NFI	RMSEA
Measurement Model	41	62.51	.94	.91	.87	.053
Model 1[1]	59	89.40	.93	.89	.87	.053
Model 2[2]	57	89.46	.93	.89	.87	.066
Model 3[3]	60	91.81	.93	.89	.86	.054
Null	78	699.09	—	—	—	—

[1]Hypothesized model.
[2]Less constrained model.
[3]Constrained model.

TABLE 2
Goodness of Fit Indices for Scenario 2

Model	DF	χ^2	GFI	AGFI	NFI	RMSEA
Measurement Model	41	54.25	.95	.92	.90	.042
Model 1[1]	60	107.82	.92	.87	.87	.066
Model 2[2]	59	93.54	.93	.89	.89	.056
Null	78	849.50	—	—	—	—

[1]This model replicates the best fitting model from scenario one (Model 3).
[2]Revised model.

APPENDIX A

Scenario 1

Bill Smith is a salesperson for ABC Corporation. Bill tries to communicate to purchasing agents that plant capacity is at a very high level because of the popularity of his product. Bill does this even when plan capacity is low. Indeed, Bill's tactic has resulted in his average prices being higher than most other salespeople's and a significant rise in his total sales. However, during a recent sales call, Bill lost all credibility with a prospect because the prospect knew through a personal friend that Bill's plant was operating significantly below capacity. The prospect figured that if Bill was willing to mislead a customer with inflated accounts of plant capacity, he also would be less than honest with regard to other, more important issues. From this call on, Bill had trouble just getting in to see this prospect.

Scenario 2

You have just obtained information that one of your sales representatives, Jim, gave a buyer for XYZ Corporation an expensive gift in order to make a large sale (it was the largest sale in the district). Jim has been employed for five years (he has made quota each year). The information about the gift came from the President of XYZ who believes that the gift was used to bribe the purchasing manager to sign an agreement for a higher price than was necessary. He said that the purchasing manager has been disciplined and that he would not purchase from your company again because of Jim's behavior. Jim has made his quota each year. Jim has confirmed that she did give the buyer the gift but said it was the only way the sale could be made. He said that he just wanted to thank the purchasing manager for making the purchase. You have no evidence that this situation has occurred previously.

APPENDIX B

Moral Intensity Scale

1. The overall harm (if any) done as a result of the salesperson's action would be very small. (Reverse scored)
2. Most people would agree that the salesperson's action is wrong.
3. There is a very small likelihood that the salesperson's action will actually cause any harm. (Reverse scored)
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] This item was dropped from both scenarios based on the results of the CFA.