

# Organizational Ethics, Individual Ethics, and Ethical Intentions in International Decision-Making

*B. Elango  
Karen Paul  
Sumit K. Kundu  
Shishir K. Paudel*

**ABSTRACT.** This study explores the impact of both individual ethics (IE) and organizational ethics (OE) on ethical intention (EI). Ethical intention, or the individual's intention to engage in ethical behavior, is useful as a dependent variable because it relates to behavior which can be an expression of values, but also is influenced by organizational and societal variables. The focus is on EI in international business decision-making, since the international context provides great latitude in making ethical decisions. Results demonstrate that both IE and OE influence EI. Ethical congruence is also discussed as a positive influence. Younger managers are more influenced by OE than older managers. The findings call for creating governance mechanisms to enhance ethical congruence, thereby increasing the likelihood of managers making ethical choices in organizational decision-making.

**KEY WORDS:** organizational ethics, individual ethics, business ethics, ethical intentions, ethical congruence, corporate governance, international decision-making

## **Introduction**

Corporate governance refers to the “system by which companies are directed and controlled” (Cadbury, 1992). One of the goals of corporate governance is to create a set of internal mechanisms to ensure sound managerial decisions are made, considering the rights and responsibilities of various stakeholders, together with the ethical norms and standards of the firm. Creating and maintaining a positive ethical climate has been recognized as an important aspect of corporate governance, reducing the costs associated with more intrusive, possibly less

effective, means of formal social control, the costs of damaged reputation, and reduced asset value when ethical transgressions come to light (Monks, 2002). Failure to maintain an appropriate ethical culture and to provide employees with appropriate models of ethical behavior can have a high cost for the corporation (Monks and Minow, 1989). The ethical climate is most effective when organizational members are internally motivated to behave ethically. Since effective corporate governance is enhanced by concordance between organizational and individual ethics (IE), it is important to understand the elements that produce this congruence. Since both organizational-level variables and individual-level variables influence ethical decision-making, research findings based on studies that focus on one level to the exclusion of the other need to be supplemented by studies that consider both types of variables.

This study contributes to the business ethics literature in several ways. The emphasis is on ethical decision-making in international business, an area of considerable contemporary interest (Bird et al., 2009; DeGeorge, 1993; Donaldson, 1989; Donaldson and Dunfee, 1999). Whereas much business ethics research focuses on values and ethical judgments, this study follows the example of Valentine and Rittenburg (2004), focusing on ethical intentions (EI). By adapting existing vignettes to explicitly represent international scenarios, this study provides an instrument that can be used to investigate international business ethics. While observations of actual behaviors would be ideal, verbal assessments of EI are a close measure, falling between the level of values, attitudes, and moral judgments and the level of actual behavior. In addition, the study furthers the understanding of

business ethics by studying organizational ethics (OE) and IE at the same time rather than separately, as is the case in many previous studies. The current study demonstrates the effect of both organizational and individual ethics on EI and their combined effect, moderated by some demographic variables. Finally, these research findings can be used to support the development of business ethics practices in organizations to enhance effective corporate governance.

This article consists of five sections, including this introduction. The next section presents the theoretical overview and is followed by a section providing the research model and hypotheses development. The following section presents the research methodology and the results of the study. The final section discusses the study findings, directions for future research, and the limitations of the study, and then concludes with the managerial implications of the study.

### Theoretical overview

Values form an important basis for ethical behavior. Values may be assessed on both the individual and the organizational levels. The correspondence between an individual's values and the values of an organization can be called "person-organizational fit" or "congruence." In her dissertation, Liedtka interviewed managers in two organizations, asking them to identify both personal and organizational values and then to describe the use of these values in resolving ethical dilemmas they faced. Liedtka (1988) used the term "value congruence" to refer to the degree of internal consistency expressed by interview subjects to characterize their own values, and to refer to the degree that the managers viewed their organizations as having values that were themselves internally consistent within the organization. Her emphasis was on the resolution of value conflict, conflict either internal to the manager or conflict between the managers and the organization. Managers with high value congruence resolved ethical conflicts at a higher ethical level than managers who expressed less value congruence, i.e., less internally consistent values. Organizations, as perceived by the same managers, also displayed more consistent or less consistent sets of values. Managers in organizations with more consistent sets of values,

or higher value congruence, were more likely to make higher level ethical decisions than managers in organizations with less consistent sets of values. In a subsequent article derived from the dissertation, Liedtka made the point, "clearly, the organizational value system plays a critical role in setting the stage upon which the ethical dilemmas that their managers face are played out" (Liedtka, 1989). Liedtka contrasted two organizations, one with a "rich, multi-dimensional value system" and the other which she characterized as "strictly utilitarian" (1989, p. 808), analyzing several different sources of value conflict: conflict within the organization's values, conflict within the individual's values, conflict between the individual's values and the organization's values, and conflict both within and between the individual's values and the organization's values (1989, p. 812).

Liedtka used the term "value congruence" to refer to the internal consistency of values within the organization and also to refer to the internal consistency of values held by the individual. An important part of her argument was the greater the degree of value congruence within the organization, the more influential the organization's values were in shaping the responses of individuals to ethical dilemmas. Additionally, the more congruent the values of an individual, the more influential those values were in shaping those same responses. In other words, when an organization had contradictory or ill-defined values, or when an individual had contradictory or ill-defined values, those values were relatively less effective in providing guidance for ethical decision-making.

Posner and Schmidt (1993) also used the concept of value congruence to interpret results of a large-scale survey. They used the concept of value congruence to capture the degree to which "consonant values" characterized individuals, or characterized organizations (as reported by the same individuals), but not to characterize the relationship between individuals and their organizations. Their conclusion was that value congruence for individuals and value congruence for organizations were both positively associated with ethical decision-making, but that the more significant influence was individual value congruence. Adkins et al. (1996) examined value congruence among co-workers, concluding that positive work outcomes such as job satisfaction and attendance were associated with value congruence, especially among

lower-ranking employees and when the work required cooperation.

An interesting question is the degree to which value congruence in the organization or in the individual influences the actual behavioral choices those individuals make when confronting ethical dilemmas. The studies cited above demonstrate an association between value congruence and ethical decision-making. Yet individuals with similar values can make different behavioral choices in ethical decision-making due to different cultural or organizational factors. For example, an organization with aggressive auditing and accountability systems may influence individuals to adhere more strictly to the company's ethical guidelines simply out of a fear of getting caught violating ethical expectations. Or, in an international setting, an individual who might value diversity or equal opportunity might nevertheless give preference in hiring to some preferred ethnic category, or to one gender over another, because of cultural expectations. In addition, the same behavior in an ethical situation may be prompted by adherence to widely varying values. A supervisor may want to be fair in evaluating employees either on the basis of the value of fairness, or because she believes that employee productivity will be enhanced by fairness, or because she has observed fairness practiced by leaders in the organization, or because the organization audits and rewards the practices judged to be fair by experts, supervisors, or the work unit. The association between values, organizational culture, and ethical practices is complex and multi-dimensional. Different values may be expressed in similar behavioral choices, and similar values may be associated with different behavioral choices. Observing actual behavioral choices in international business would be ideal, but difficult to operationalize. However, EI has been used by Valentine and Rittenburg (2004) to suggest the behavioral aspect of ethical decision-making. Their development of a series of vignettes in which EI can be expressed has facilitated the development of research connecting values and behavioral intentions or expectations.

Kuenzi and Schminke (2009), reviewing the organizational work climate literature, noted the proliferation of definitions and the overlapping of many related concepts, including organizational climate, work climate, psychological climate, and

organizational context. They attempted to distinguish organizational climate from culture, suggesting that organizational climate relates more to "how things are done," whereas organizational culture relates more to "underlying assumptions" ... "at a higher level of abstraction" (Kuenzi and Schminke, 2009, p. 638). This distinction is useful for consideration of *ethical* climate research. The focus of ethical climate research has similarly been on "how things are done" when ethical decision-making occurs, as distinct from ethical culture, which relates more to underlying assumptions. One influential stream of ethical climate research (Victor and Cullen, 1988) is based on the idea that organizations may demonstrate ethical dimensions analogous to the stages of moral development proposed by Kohlberg (1981) for individual moral development. Several studies have considered the fit between IE and organizational climate, observing that higher congruence is preferred by individuals (Sims and Keon, 1997; Sims and Kroeck, 1994) and is associated with higher levels of job satisfaction, greater job commitment, and reduced turnover intention (Ambrose et al., 2008). Wyld and Jones (1997), proposing an agenda for research on ethical decision-making, postulated the importance of context, similar to the idea of ethical work climate, as a backdrop for the dependent variable "perception of ethical matters."

Research on ethical climate (Ambrose et al., 2008; Chatman, 1989; Judge and Bretz, 1992; Weber, 1995) now considers both organization and individual variables, generally by means of surveys designed to elicit attitudes, values, or level of moral development. Perceptions, values, and attitudes are important, but the underlying assumption is that they are important because they lead to certain behaviors which may or may not conform to the ethical standards of the corporation (Ostrowsky et al., 2009; Treviño et al., 2006; Weaver et al., 1999). Although ethical decision-making is influenced by organizational and individual factors, most business ethics research focuses on either organizational or individual factors rather than on the two types of factors simultaneously, as noted by Ambrose et al. (2008, p. 323).

As noted above, values congruence consists of agreement on fundamental values. Ethical congruence consists of agreement on appropriate actions

when faced with ethical dilemmas. Ethical congruence may derive from values congruence, but this is not always the case. Other factors, as noted above, such as the example of leaders, the auditing and accountability practices of the organization, and the cultural norms prevailing in a given geographic setting, also affect ethical decision-making. Thus, ethical congruence is a concept related to, but not the same as, value congruence. The concept of ethical congruence has been suggested in the accounting literature (Sauer and Chao, 2005; Sullivan, 2004) and demonstrated among accounting students who took a professional ethics course. In some respects, the concept of ethical congruence is similar to person–organization fit. However, the idea of ethical congruence focuses more on behavior in situations where ethical issues are involved. The current study explores the behavioral intentions of respondents considering what they would do when confronted with a series of ethical dilemmas. The focus is on the actions respondents would take to resolve these issues, along with the corresponding actions they think their colleagues would take. “Ethical intention” is the term we apply to these anticipated behaviors.

Complexity arises when the international dimension is introduced in the study of ethics. Donaldson (1989) has discussed the co-existence of hyper-norms observed across cultures along with variations between cultures on other norms. Cultural and regional norms persist even as global business practices grow (DeGeorge, 1993). Trompenaars (1994) has pointed out the differences, for example, between universalistic cultures such as the United States and more particularistic cultures, saying that adherence to rules is more the norm in the universalistic culture, whereas consideration of exceptional circumstances is more accepted in the particularistic culture. International business situations offer the opportunity to assess how IE and OE influence an individual’s intentions to behave ethically where many societal and legal constraints on unethical behavior are missing, and where corporate governance mechanisms may be less effective.

The vignettes used in modified form in this study were developed by Valentine and Rittenburg (2004) to investigate differences between U.S. and Spanish business professionals. They found that U.S. respondents were more likely than Spanish respondents to

assert the intention to behave ethically, and also expressed more teleological assessments (based on outcome). Their study found that a higher level of ethical judgment was associated with both EI and teleological assessment. Managers operating in the international markets face significant pressure to act unethically due to tolerance of bribery (Sanyal, 2005; Sanyal and Samanta, 2004), the extent of corruption in society (Husted, 1999), the degree to which elites are self-serving (Banfield, 1967), and other societal-level variables. These situations allow for considerable variation in managerial judgment for several reasons. Often there is a lack of congruence between home country and host country standards in ethical behavior. The manager stationed abroad may feel distant from organizational and societal resources for resolving ethical issues. Legal and regulatory controls are often lax. The scrutiny of consumers, investors, journalists, or other stakeholders may be less intense, hence less effective as social control influences. In addition, the internal mechanisms of social control important for corporate governance may seem less salient in a distant location or a different culture. The autonomy and authority necessary for managerial effectiveness in an international setting expand the possibility for decision-making to deviate from corporate expectations. Consequently, international business ethics vignettes provide wide discretion in managerial decision-making. Since this study considers both organizational and individual influences, it is important that the dependent variable, EI, has considerable variation, in other words, that respondents have wide discretion in choosing their desired course of action. For these reasons, the emphasis on ethical decision-making in international business is appropriate for the current study.

### **Research model and hypotheses development**

This article’s goal is to test the relationship between IE and OE on the intention to behave ethically by respondents (ethical intention or EI). The research model is based on Treviño’s (1986) ethical decision-making model in organizations and the model subsequently proposed by Treviño et al. (2006, p. 953). In this model, Treviño used the interactionist perspective, stating that individual and situational variables

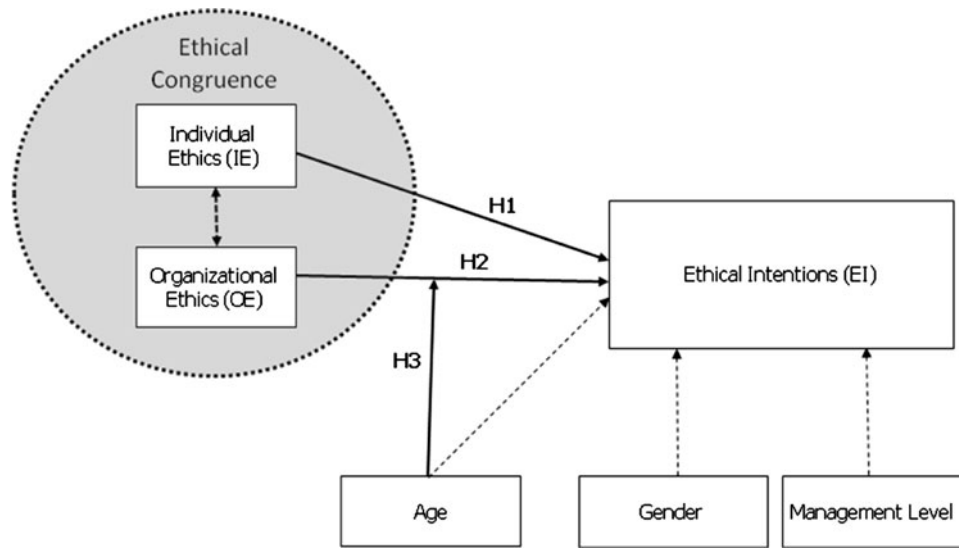


Figure 1. Diagram of research variables.

predict ethical decision-making in organizations. Ferrell and Gresham (1985) presented a similar framework for understanding ethical decision-making for the marketing context using variables such as individual and organizational factors along with opportunity for action. Raelin (1993) argued that the factors that influence the consistency of belief and action (i.e., the Persean ethic) in managerial practice are individual factors and situational characteristics, along with their interaction. Strong empirical validity exists for these individual and situational variables, as they have been studied in the literature to enable us to understand their impact on ethical decision-making. These variables are succinctly summarized in a review of the literature on ethical decision-making by Ford and Richardson (1994). More recently, Ibarra-Colado et al. (2006) explained how an individual's values and organizational context guide individual decision choices of managers.

The research model proposed here follows the design of Valentine and Rittenburg (2004) in using the intention of the individual to behave ethically, or EI, as the dependent variable. The two variables hypothesized to have an impact on the dependent variable are the respondent's own IE and the organization ethics (OE) experienced by the respondent. Gender, age, and level of management experience are used as control variables based on extant literature

(e.g., Loe et al., 2000; Ruegger and King, 1992; Treviño et al., 2006). The emphasis is on EI in the international context, allowing for the possibility of a wide range of possible ethical choices to be made with considerable freedom from social and legal constraints. The research model used in this article is presented in Figure 1, where an additional concept is illustrated. This is the concept of ethical congruence (EC) or the degree of "fit" between IE and OE.

### Research hypotheses

A basic driver of a person's intention to behave ethically (EI) is the individual's own individual values and ethical standards (IE). The underlying basis for this argument is based on the theory of reasoned action (Ajzen and Fishbein, 1974, 1980; Randall, 1989). This theory links individual attitude toward a behavior to a person's actual behavior and has been used to explain behavior. Strong evidence has been found for the predictive utility of the model within the boundary conditions in varied business contexts (Sheppard et al., 1988) as well as in the ethics literature (e.g., Chen and Tang, 2006). In a study of top organizational officials in the U.S. service sector, Murphy et al. (1992) reported that attitudes are one of the best predictors of ethical behavior. Similarly,

Berger and Alwitt (1996) reported that people who have higher convictions in their feeling toward the protection of the environment also show environment-friendly behavior. Although direct observation of ethical behavior would be ideal, this study uses as a proxy an individual's stated EI as measured by a previously validated instrument to measure EI. Consequently, the first hypothesis is the following:

*Hypothesis 1:* Individual ethics will be positively related to ethical intentions (EI).

This study aims to examine the impact of the organization's ethics on the individual's intention of behaving ethically, since organizational norms and practices may either support or undermine an individual's ethical standards. There is considerable theoretical basis for this aspect of the study, although not a great deal of empirical evidence at this time. Victor and Cullen (1988) argue that individual characteristics alone do not influence moral behavior and, therefore, are insufficient to predict moral behavior. Past research offers support for the assertion that organizational level predictors have a significant influence on individual decisions (Forte, 2004a, b). Organizational cultures, rewards, and belief systems profoundly influence employee thinking and, therefore, are important influences on an employee's ethical or unethical behavior (Baucus and Beck-Dudley, 2005). Past research offers support for the assertion that OE and ethical culture influence an individual's attitudes toward ethics (Vitell and Hidalgo, 2006). According to the Ethics Research Center (ERC), when top management personnel show ethical behavior, employees are 50% less likely to act unethically (Ethics Resource Center, 2005). Each individual in our sample has an employment history which has provided the opportunity to observe and experience at least one organization's ethical practices and is currently employed in an organization whose ethical culture is a constant presence. Hence, we predict that individuals who experience an organization behaving ethically will be more likely to express EI than will those individuals who report less ethical behavior in their own organization. This assertion seems particularly appropriate in the international context where managers may encounter considerable variation in local ethical standards and practices. Therefore:

*Hypothesis 2:* An employee's perception of high levels of OE will be positively related to ethical intentions (EI).

Previous studies have shown age to be a factor in influencing ethical norms since the pioneering work of Piaget (1932), followed by Rest (1979), Kohlberg (1981), and others (Arlow, 1991; Blasi, 1980; Forte, 2004a, b). Older employees are less likely to be susceptible to influences running counter to previously internalized moral or ethical standards and are more likely to make ethical choices than younger employees (Deshpande, 1997; Ruegger and King, 1992). Several factors contribute to this phenomenon. Psychological research indicates that young men are prone to excessive risk-taking generally (Finucane et al., 2000). Younger employees tend to have less experience than older employees. Consequently, they may be especially vulnerable to manipulation by others or to temptation for what they perceive as their own immediate self-interest. Empirical support for this view can be found in several previous studies. Carroll (1975) reports younger managers go along with their superiors in matters related to judgments of morality. Similar or consistent findings are reported by Ford and Richardson (1994). Therefore, these younger employees will find it easier to behave unethically due to "motivated reasoning" (Bersoff, 1999; Kunda, 1990) in situations involving individual cost. Following this reasoning, the third hypothesis is:

*Hypothesis 3:* The relationship between an employee's perception of OE and ethical intentions (EI) will be moderated by the age of the employee.

Two control variables, gender and managerial experience, are used in this study. Previous research on the impact of gender on ethical decision-making has produced mixed results. Some studies have shown women to have higher ethical standards than men, but others indicate no difference between women and men (McCabe et al., 2006). We are not aware of any studies showing men to be ethically superior. Therefore, we control for gender, but without any specific prediction. The same may be said for the influence of the level of managerial experience. One might expect level of responsibility to be associated with more mature, hence more ethical, decision-making, but we are unaware of any

studies focusing on this aspect. However, age and managerial experience are often linked, and the effect of age observed in previous studies might in reality be the impact of managerial experience. Thus, the level of managerial experience is used as a control variable.

## Research methodology

### Subjects

The sample subjects were graduate students enrolled in MBA programs at two major state universities in the United States, working full-time and having at least 2 years of full-time work experience. Appropriate authorization for human subject research was obtained from each university. Students in MBA programs with executive experience have been used as surrogates to reflect managerial thinking in many studies (e.g., Beekun et al., 2005; Vitell and Hidalgo, 2006) because they have a certain degree of individual maturity, life experience, and work experience that approximates a population of actual managers. Previous research has demonstrated that graduate students can serve effectively as surrogates for managers in business decision-making (Remus, 1986) and that students can substitute for businessmen in behavioral research (Khera and Benson, 1970), in marketing research (Burnett and Dunne, 1986), and in consumer behavior studies (Enis et al., 1972). In fact, MBA students often have managerial experience and many are managers even while they are enrolled as students, as was the case with this sample. We solicited the cooperation of MBA students in their final semester of the program, since they would have the most individual maturity and work experience. In order not to sensitize them to the specific nature of the study topic, we told the subjects that the goal of the survey was to seek “the opinion of executives on business practices for a research project on managerial decision-making.” The subjects were promised anonymity in their responses and assured that the survey would be used solely for academic research. However, the limitation of such a promise was that we could not test for non-response bias. Table I provides demographic data on the sample, which had considerable international experience and considerable managerial

TABLE I  
Profile of respondents ( $N = 102$ )

Demographic	Percentage
Age	
25–30	21.57
30–35	32.35
35–40	32.35
40+	13.73
Gender	
Male	66.67
Female	33.33
Country of birth	
United States	45.10
Other	37.25
Unknown	17.65
Education	
Masters degree completed	48.04
Undergraduate degree completed	51.96
Management level	
Entry level	30.39
Middle level	47.06
Upper level	22.55
Managerial experience (years)	
Less than 5	33.33
More than 5 but less than 10	39.22
More than 10 but less than 15	15.69
More than 15	7.84
Missing data	3.92
Functional specialization	
Management	36.27
Finance	17.65
Accounting	4.90
Marketing	12.75
Engineering/consulting	15.69
Other	12.75
Number of times travelled abroad	
Less than 5	30.39
More than 5 but less than 20	41.18
More than 20	28.43
International work experience	
Less than 1 year	48.04
More than 1 but less than 5	22.55
More than 5 years	29.41
Race	
Caucasian	32.35
Hispanic	51.96
Black	6.86
Asian	7.84
Native American	0.98

experience. More than half had been born outside the United States, more than half had at least 1 year of international work experience, and more than half were Hispanics. While the high percentage having international work experience gave some assurance that they were familiar with ethical issues that can arise in international business, we wanted to confirm that these differences did not confound our study findings. Therefore, we conducted a mean comparison analysis with likelihood of ethical behavior in international settings as dependent variable under the following categorizations: race (Hispanic vs. Non-Hispanic), international experience (less than 1 year vs. more than 1 year) and education level (undergraduate degree completed vs. graduate degree completed). Statistical results found the mean differences across these demographic variables to be statistically insignificant, allowing us to proceed with greater confidence.

### Measures

#### *Dependent variable*

Extensive support exists for the usage of vignettes to facilitate assessment of an individual's ethicality (Weber, 1990). For this study, it was necessary to identify vignettes with international business elements. One previously validated set of 10 vignettes (Valentine and Rittenburg, 2004, pp. 9–10) had 7 vignettes with international elements, so this subset of 7 was selected to measure the individual's intention to behave ethically in international business. The specific scenarios selected from Valentine and Rittenburg (2004) were the following: competitor intelligence (Korean firm in the U.S. and U.S. firm in Norway), bribery (U.S. firm in Japan and Argentinean firm in the U.S.), product safety (Singaporean firm in the U.S. and U.S. firm in Malaysia), and deceptive advertising (British firm in the U.S.). Each of these scenarios was approximately three to five lines in length, concluding with an action taken by a particular firm (see Appendix 1). While the action taken by the firm was unethical according to the norms prevailing in the culture where the students were located, this was not explicitly stated to the subject, nor were they asked to make a judgment on the rightness or wrongness of the action. Rather, they were asked to judge their own likelihood of acting in the way described. After

each vignette, subjects chose a number between 1 and 7, where 1 represented high and 7 low, in response to the assertion: "The probability that I would undertake the same action." This 7-point scale and particular questions were adapted from Cohen et al. (2001, p. 333) where they were used to measure EI. The average value of the Cronbach's  $\alpha$  reliability measure for this query across the seven scenarios was 0.726.

#### *Independent variables*

The scale to measure IE was based on the social responsibility scale for marketing personnel developed by Peters (1972) to test attitudes beyond the need for immediate financial return to his or her company, and to capture values such as a concern for social responsibility. This scale, one of the first developed to measure ethical attitudes, was modified and used further in studies by Paul et al. (1997) and Meijer and Schuyt (2005). Peters' original scale consisted of 26 items and had a reliability of 0.73. Since the focus of the current study was toward an individual's general orientation toward business ethics in the international context, several of Peters' scale items were modified to emphasize the international business context of this study, resulting in a scale with 29 items and a reliability coefficient (Cronbach's  $\alpha$ ) of 0.819. The items were scored on a 5-point scale ranging from 1 = "Disagree Strongly" to 5 = "Agree Strongly," with several of the items reverse coded. The IE scores were computed as the sum of the underlying scores of each of these items. See Appendix 2 for the modified scale.

In order to measure OE, respondents' perceptions of their own organizations were used, since for the purpose of this study the focus was on the ethical standards and culture of the organization as experienced by the respondent. The instrument used was the 5-item Corporate Ethics Scale developed by Hunt et al. (1989) who reported a reliability of 0.78 for their scale based on a sample of 1246 respondents. They conceptualized OE through employee perceptions of their own managers. See Appendix 3 for the scale. Cronbach's  $\alpha$  for this 5-item scale was 0.814 for this study's sample. OE values were computed as summation of the 5-item scores.

Age was assessed by asking subjects to select their age using specific categories: 20–25; 26–30; 31–35; 36–40, and 40+. The sample was split into two roughly equal groups (below 35,  $N = 55$ ) and



(above 35,  $N = 47$ ) and dummy coded 1 and 0, respectively. Gender also was used as a control variable in our regression model (Chen and Tang, 2006; Derry, 1989; Deshpande, 1997; Forte, 2004a, b; Rest, 1979, 1988; Sen et al., 2006; Simga-Mugan et al., 2005). Given the mixed findings in previous research on the impact of gender on ethical attitudes or behaviors, the expected sign of this variable was not hypothesized. It was dummy coded 1 (male) and 0 (female). Finally, management level was used as a control variable. Since only two business ethics studies were found that used this variable (Wiley, 1998; Zabid and Alsagoff, 1993), no specific directionality was proposed, but it seemed at least possible that upper level managers would differ from lower level managers in their intention to behave ethically (EI) because of their greater experience and maturity. This variable was dummy coded 1 (upper level managers) and 0 (middle or lower level managers).

Descriptive statistics of the variables along with correlation values are presented in Table II. The review of the correlation values between the various independent variables indicated that the likelihood of multicollinearity invalidating the study findings was minor. Additionally, in each of the regression models, variance inflation factor (VIF) scores were checked to ensure that assumptions of the models tested are not violated. The following section presents the statistical results of this article.

### Analysis

The empirical analysis used for testing these hypotheses is based on stepwise hierarchical regression

models and is reported in Table III. In Model 1, age dummy was negatively related to the likelihood of ethical behavior in international settings ( $\beta = -0.325, p < 0.01$ ), whereas gender and management level were insignificant ( $\beta = 0.151$  and  $-0.021$ , respectively). Three regression models were used to test the three hypotheses presented in this study. Model 2 tested Hypothesis 1 wherein IE was regressed over EI along with the variables in Model 1. This model explained about 21.6% ( $p < 0.01$ ) of the variance, and the IE term was significant with a positive loading ( $\beta = 0.498, p < 0.01$ ), indicating support for Hypothesis 1. In Model 2, the  $\beta$  loading for age was reduced but remained statistically significant ( $\beta = -0.232, p < 0.01$ ), while gender, which was insignificant in the prior model, turned significant ( $\beta = 0.212, p < 0.05$ ) and remained significant in the subsequent models, suggesting that females were higher in EI than males. In Model 3, OE was added to Model 2 to test Hypothesis 2. Statistical support was found for Hypothesis 2, with a  $\beta$  loading of 0.158 ( $p < 0.05$ ). Model 3 explained 30.3% ( $p < 0.01$ ) of the variance of EI.

Model 4 tests for the moderating relationship proposed in Hypothesis 3 through the addition of a new variable (i.e., OE  $\times$  Age Dummy) to Model 3. In this model, the added term loaded negatively ( $\beta = -0.733, p < 0.01$ ), indicating age to be an interactive influence as proposed by the hypothesis. The  $\beta$  loading for OE increased to 0.267 ( $p < 0.01$ ), while the loading on IE was reduced to 0.406 ( $p < 0.01$ ). As argued in the theoretical development of the hypothesis, findings indicate that OE is more likely to influence the EI of younger employees than it is to influence the EI of older employees. Addi-

TABLE II  
Means, standard deviations and correlations ( $N = 102$ )

	Mean	SD	1	2	3	4	5	6
1. Individual ethics (IE)	103.77	13.45	1					
2. Organizational ethics (OE)	19.46	5.07	0.319**	1				
3. Age dummy	0.46	0.50	-0.122	-0.108	1			
4. Gender dummy	0.68	0.47	-0.106	-0.003	0.009	1		
5. Management level dummy	0.26	0.419	0.073	-0.059	-0.075	0.072	1	
7. Ethical intention (EI)	37.71	6.80	0.515**	0.327**	-0.215*	0.170	0.034	1

\* Correlation is significant at the 0.05 level (two tailed).

\*\* Correlation is significant at the 0.01 level (two tailed).

TABLE III  
Summary of regression results ( $N = 102$ )

Variable	Hypothesis	Model 1	Model 2	Model 3	Model 4
Individual ethics (IE)	1		0.498***	0.448***	0.406***
Organizational ethics (OE)	2			0.158**	0.267***
Interaction term (OE $\times$ age dummy)	3				-0.733***
Age dummy		-0.325***	-0.232***	-0.221***	0.482**
Gender dummy		0.151	0.212**	0.207***	0.180**
Management level dummy		-0.021	-0.049	-0.034	-0.047
$R^2$		0.106*	0.216***	0.303***	0.385***
$F$ value		4.993	14.096	12.256	11.555
Incremental $R^2$			0.11***	0.087***	0.082***
Incremental $F$ value			3.603	4.775	6.292

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ . All  $\beta$  values are standardized values.

tionally, the age dummy which loaded negatively in Model 3, as well in prior models, became positive ( $\beta = 0.482, p < 0.05$ ), indicating that older managers are likely to express higher EI. This model explained about 38.5% ( $p < 0.01$ ) of the variance in EI.

We also tested for the incremental contribution of each of the variables across the models. As shown in Table III, for each of the models, the incremental  $r^2$  values were statistically supported, thereby supporting the overall rationale of the models tested. These findings support the overall premise of the framework presented in the article. Table II also shows that OE was positively related to IE ( $r = 0.319, p < 0.01$ ). In order to further validate the notion of ethical congruence, we used an approach that is conceptually similar to the methods followed by Ambrose et al. (2008). First, we determined the mean of IE and OE scores. Second, we categorized scores higher than the mean as high IE and high OE, and scores below the mean as low IE and low OE. Third, we divided the sample into two groups. The first group (Group A) consisted of individuals in the sample with high IE and high OE (high-match), whereas the second group (Group B) consisted of individuals of low IE and low OE (low-match), low IE and high OE (mismatch), and high IE and low OE (mismatch). Group A had a sample of 41 individuals and Group B had a sample of 61 individuals. Fourth, we computed the mean for the likelihood of ethical behavior in an international setting for both groups (Group A, mean = 40.658; Group B, mean = 35.727). Finally, we compared the mean of

both groups. Our ANOVA results support the notion that when there is congruence (high IE and high OE), it increases the likelihood of ethical behavior in an international setting ( $F = 14.621; p < 0.000$ ). Both of these findings support the underlying rationale of the study, the proposition that ethical congruence, or the congruence of IE and OE, can be an important element in corporate governance and can be used as a variable in future studies. The following section discusses the findings, limitations, and implications of this study.

## Discussion

Extant research tends to focus on either organizational or individual factors on ethical decision-making (Ambrose et al., 2008). This study extended previous ethical decision-making models (Treviño, 1986; Treviño et al., 2006) by considering the impact of both IE and OE on EI. Overall support was found for the notion of "ethical congruence" as well as the theoretical rationalizations made in the article, with the regression models explaining about 38% of the variance. Findings indicate that managers use both IE and OE to guide them in making ethical choices, consistent with previous findings in the accounting literature (Sauer and Chao, 2005; Sullivan, 2004). Put another way, managers come to ethical decision-making with their own experiences and values, but they also are influenced by the ethical standards and practices they observe in the workplace.

The last hypothesis suggests that the relationship between an employee's perception of OE and intention to behave ethically (EI) was moderated by the age of the employee. Consistent with this expectation, findings indicated that younger managers were more likely to be influenced by OE than older managers, and that older managers were more likely to make ethical choices. Gender had no statistically significant relationship in Model I, whereas in other models (II, III, and IV), females were higher than males in EI. This finding suggests that gender differences in ethical decision-making may exist, but they are not very strong, and that if one gender is more ethical, it would be the female. The second control variable, management level, was not significant in any of the models tested. However, the relationship between management level and EI was negative across all four models.

These findings suggest that the concept of ethical congruence merits further study. There have been previous studies of value congruence and of person-organization fit, but the correspondence of basic values and actual behavioral choices in ethical issues by individuals in organizations also merits study, since these are somewhat distinct and discrete phenomena. Individuals make ethical choices on the basis of values, both their own individual values and the values of the organization. However, factors such as the norms observed among other workers, the examples set by leaders, organizational policies and practices, and societal influences also influence ethical choices. Behavior may even be the basis for the development of attitudes that justify the behavior, as was demonstrated by Festinger (1957) in his work on cognitive dissonance and on the body of research that has followed (Aronson, 1997). Sullivan (2004) used the concept of ethical congruence to refer to the acceptance of professional accounting norms by accounting students. In that study, there was no evidence of a shift in values as being responsible for increased ethical congruence. Instead, increased training communicated how practicing accountants exercise ethical practices accepted in the profession, and the combination of increased information, persuasive communication by respected members of the profession, and the desire to conform inspired acceptance of prevailing norms by subjects of the study.

Ethical congruence is applicable for a wide range of organizations and positions within organizations.

While our study's focus was on the impact of ethical congruence on EI, the statistically significant relationship between IE and OE observed in Table II is an important element for corporate governance in international settings as well as a useful concept for future research. This concept gives rise to several interesting questions having to do with the causality as well as the effect of ethical congruence. For example, it would be helpful to know how ethical congruence is achieved in an organization. Perhaps organizations are effectively recruiting and retaining employees whose ethical standards are congruent with the organization's ethical standards. In other words, organizations might be effectively screening out potential employees whose ethical standards are either too low or too high for comfort, or such employees might be effectively de-selected after hiring. Another possibility is that employees are making career choices influenced by their own sense of ethics and seeking organizational cultures where ethical standards are neither too low nor too high for their own personal comfort. Another alternative might be that employees become socialized to prevailing norms in their workplace and come to accept what exists as what should be. A more psychologically based explanation could be that employees are projecting their own sense of ethics onto the organization as a whole. Longitudinal studies are needed to determine which of these explanations have validity, and in-depth studies within organizations would be useful. This would allow researchers to see if respondents project their own ethical standards onto their organization, whether they internalize organizational norms over time, or whether organizations are selecting for ethical congruence either in hiring or retaining employees, all very promising areas of inquiry and practical application. Monitoring ethical congruence, perhaps using periodic surveys, might be valuable in assessing organizational culture. On an operational level, it could be that different types of ethics training programs are effective according to the degree of ethical congruence among employees. Future studies could assess the impact of ethical congruence on job satisfaction and turnover, as well as on the degree of conformity to corporate norms and expectations.

Furthermore, the relationship of ethical congruence to ethical compliance and, by extension, to the effectiveness of corporate governance policies and

programs, could be promising areas for future research. The emphasis on ethical congruence is consistent with the overall spirit of the requirements for internal control (Section 302) of the Sarbanes–Oxley act which seeks to prevent, detect, or report unethical actions by managers. Thus far, there have been relatively few studies on the role of boards in creating ethical climate. This topic also allows for new theory development, as the link between corporate governance and ethical congruence can be conceptualized as a way to reduce transaction costs and optimize downside risks for stakeholders of a firm. Apart from the several issues highlighted above, issues related to corporate governance which need attention include the role of internal versus external directors in facilitating ethical congruence and the development of reward structures for individuals making ethically congruent choices.

An additional avenue for scholars working in the international business ethics area could be to focus on decision-making in varied international business contexts. This line of research allows for comparisons across a range of contexts (e.g., host country, home country, industry, and type of decision) and potentially offers insights on managerial behavior in ethical decision-making and practice. For example, it would be interesting to compare the responses of managers from a single country to an international business scenario across varied host countries. Earlier work by Rittenburg and Valentine (2002) has shown that ethical judgments and intentions in international settings vary by home country (Spain vs. U.S.) of the manager. Following this line of thought, there might be an interaction effect between home country of the manager and host country where the decision-making takes place. Another line of study could be to inquire if EI varies according to the subject's host country or home country, or in response to particular types of unethical international business practices, such as paying bribes, using unethical accounting practices, or evading taxes. Similarly, investigations could also be made to see if managerial choices are influenced by the industry of the manager, the degree of internationalization of the company, the type of ownership, or other organizational variables.

This study used two newly adapted scales to capture IE (Peters, 1972; Valentine and Rittenburg, 2004) and OE (Hunt, et al. 1989). Both were

derived from scales which are now decades old, but have been used relatively few times. Both the original scales and the scales as adapted for this study have desirable reliability characteristics. Replication of this study and use of these instruments in different cultures and among different populations would provide valuable information on the relative impact of IE versus OE on decision-making and the contribution of ethical congruence to effective corporate governance. The adaptations made in this study to focus on specifically international business ethics decision-making should be especially useful in future studies since the globalization of business is such a pervasive phenomenon.

#### *Limitations*

This study has limitations due to the nature of its design. It used executive MBA students with work experience and considerable international exposure as a surrogate to capture actual decision-making of managers. While the usage of MBA students was consistent with previous practice for exploratory studies such as this one, there are limitations. Students in a classroom are likely to reflect on ethical issues more deliberately than they might in actual managerial practice or to deliver distorted responses due to social response bias. This study focused on international business issues, where the foreign setting, its culture, its institutions, and its norms have a greater impact than the classroom setting could ever replicate. Since this study's sample size was limited, a parsimonious research model was required, limiting the inclusion of possible variables identified in extant literature. For instance, literature reviews provided by Ford and Richardson (1994), Loe et al. (2000), O'Fallon and Butterfield (2005), and Treviño et al. (2006) suggest a variety of other influences in societal, organizational, and individual ethical decision-making, while the corporate governance literature suggests yet another set of variables which could be considered (Potts and Matuszewski, 2004; Turnbull, 1997; Weimer and Pape, 1999). Additional variables that could affect EI, hence should be considered in future studies, include size of organization, type of industry, extent of regulatory constraints, extent of industry codes of conduct, degree of internationalization (of employees,

investors, and consumers), and type of corporate governance systems. The measure of OE was based on the perceptions of respondents as they considered their respective current employers. For future studies, a more objective measure would be useful. Moreover, the degree to which the intention to engage in ethical behavior corresponds to actual ethical behavior is difficult to assess. Therefore, studies aimed specifically at this question are required to advance this topic further. Finally, the extent to which local environment pressures a manager to act unethically may vary from country to country. In an effort to minimize the impact of such local differences, this study used a variety of host and home scenarios in the vignettes. Future replication of this study finding across varied country samples and managerial settings will lead to greater confidence in the study's findings.

#### *Implications for corporate governance*

This study offers several implications for companies seeking to enhance corporate governance through effective internal mechanisms. Study findings thematically support the notion that better governance can be achieved through a tight coupling of IE and OE. First, the strong relationship of IE to EI demonstrates the need to recruit managers with high ethical standards if a company wants to create a positive ethical culture. Additionally, this study's findings highlight the need for a company's board members to screen a senior manager's ethical standards closely before making international assignment decisions. Secondly, the strong relationship between OE and EI shows that companies need to create a positive ethical culture with programs of ethical training and monitoring ethical performance. Articulating core values of the corporation, essential though it may be, may be inadequate to provide a firm basis for actually resolving ethical issues in practice. Training programs should provide case studies or actual examples of ethical dilemmas that require behavioral choices by employees. Additionally, actions in international operations which deviate from accepted practice in the corporation should be recognized and used as teaching tools within the corporation. Employees who have the inclination to resolve ethical issues properly will be discouraged from doing so if they see unethical

behaviors go unnoticed in overseas settings. They may lack confidence in their own decision-making skills if the prevailing ethical climate does not provide support. Third, the impact of OE on younger managers is likely to be especially important. Older managers may be able to make informed ethical judgments based on their own experience and individual maturity, but younger managers require more direction from the organization if they are to act ethically. Additionally, younger managers who have fewer years of experience in the corporate world may need validation through organization feedback on their ethical choices.

Finally, a significant relationship exists between IE and OE, demonstrating an empirical basis for the concept of "ethical congruence" which would be an interesting extension of the existing research on value congruence, ethical climate, and person-organization fit. For reasons presented in the discussion section, it may be that these two dimensions (IE and OE) reinforce each other in organizational settings. For example, many employees would be hard pressed to consistently behave ethically in an organization characterized by a poor ethical climate (or vice versa). Therefore, to ensure good corporate governance, organizations should strive to create and reinforce a good ethical climate through selection and support of individuals with congruent ethical standards and ethical decision-making skills. These considerations are especially important for international business. Where managerial discretion is high and proximity to high level corporate decision makers is low, as in an international posting, the ethical climate of the firm is particularly vulnerable to forces which can undermine standards. In these cases, ethical congruence, the correspondence between IE and OE, may be an especially powerful force in ethical decision-making when employees are posted aboard.

#### **Appendix 1: International vignettes (as reported in Valentine and Rittenburg, 2004, pp. 9–10)**

##### *Scenario 1*

A Korean manufacturer of automobile parts is having a difficult time penetrating the U.S. market for replacement auto parts. The designs of the

U.S.-manufactured parts are superior to those of the Korean's.

*Action:* The Korean firm pays an employee of the leading U.S. auto parts manufacturer to obtain the latest design specifications for their products.

#### Scenario 2

A U.S. project management company is being systematically outbid on large contracts by an aggressive Norwegian firm. The Kuwaiti government has requested bids on a large harbor project.

*Action:* Before the U.S. Company submits its bid on the harbor project, it pays a secretary of the Norwegian firm for a copy of that firm's bid.

#### Scenario 3

Because of a substantial drop in its sales in the U.S., the C.E.O. of a British auto firm directed its marketing department to develop a new advertising campaign. The series of ads that received the most favorable response from focus groups show the driver surviving dramatic collisions with a tank, a locomotive, and an airplane. These results were achieved only with additional reinforcements to the door panels, roof, and fire wall.

*Action:* The C.E.O. decides to run the ads in the U.S. without disclosing that the autos in the ads have been altered for dramatic effect.

#### Scenario 4

Despite a line of superior products, a major U.S. manufacturer of tools is having an extremely difficult time gaining a foothold in the Japanese market. Customs officials arbitrarily reject products and major distributors are unwilling to enter contracts with the firm. The Japanese government has let it be known that a substantial contribution to their political party could alter the way the manufacturer's products are perceived.

*Action:* The manufacturer decides to make a contribution of \$200,000 to the ruling party.

#### Scenario 5

A major Argentinean exporter of beef has recently run into problems with the U.S. government over beef being shipped to the U.S. which have been fed an unapproved growth hormone. Future shipments will be banned unless expensive laboratory tests are run on each animal and each animal is certified free of this particular growth hormone. The costs for such tests could run up to \$500,000 per shipment.

*Action:* The exporter finds a U.S. lab willing to issue a certificate for each animal, although tests are run on only a limited number. The exporter pays the lab \$100,000.

#### Scenario 6

A Singaporean drug company produces and markets in Singapore and the United States a drug that is the only known cure for glaucoma. Recent research by a Singaporean government laboratory strongly indicates that the drug produces malignant hypertension resulting in strokes in a number of cases. The Singaporean government has banned the drug for use in Singapore.

*Action:* The drug company continues to market the drug in the United States where it is still legal.

#### Scenario 7

A U.S. electronics manufacturer uses a chemical solvent in its production process which results in birth defects when pregnant workers are exposed to it. Ban of the use of this chemical in the U.S. is inevitable. An economic analysis by an outside consultant indicates that it will cost three times as much for the manufacturer to convert the production process to the use of a non-toxic chemical as to relocate its plant to Malaysia, where no ban on the chemical is anticipated.

*Action:* The electronics manufacturer decides to relocate the plant in Malaysia.

**Appendix 2: Descriptive statistics,  $N = 102$ . Attitudes toward international business ethics: modified from Peters (1972)**

Question	Mean	Standard deviation
1. Maximizing profits should be the single most important goal of international business operations	3.01	1.25
2. I would probably quit a company that I felt was unethical in the way they sold and promoted their products in international markets	3.26	0.89
3. We have a long way to go before companies routinely take host countries	3.95	1.08
4. I am not concerned about the decisions my company makes in other countries, when I know that I can do nothing to change them	3.14	0.75
5. The problems of local host countries should be important problems for business to help solve even if there is no immediate rewards for the business	3.73	1.08
6. Activities of foreign business subsidiaries should be mostly under the control of headquarters	3.61	0.98
7. One should not be critical of foreign business operations of our home country companies	2.99	1.12
8. There is no real reason to worry about the social effects on the 'legitimate business activities' by company operations in other countries	3.65	1.09
9. It is the proper role of government to make regulations involving the operations of foreign plants	3.89	1.11
10. I often wonder if we are treating our stakeholders (e.g., employees, local citizens) fairly in our overseas factories and plants	3.29	1.25
11. I do not understand people who argue for human rights in other parts of the world. After all, we are doing them a favor by locating our plant in poor countries	3.43	1.14
12. It is probably best for our society if human rights organizations take up the cause of disfranchised people in other countries instead of companies, governments and the public	3.96	1.23
13. In the long run, there is nothing wrong with using the "buyer beware" concept as a guiding philosophy in one's operations in other countries	2.63	0.97
14. There is nothing wrong with a company underreporting occasional "accidental deaths" in its overseas factories	3.23	1.03
15. Company product standards in foreign markets can be lower than what they are in home markets, as long as it does not break the local law	4.57	0.77
16. It is not proper to distort evidence about a company's operations in other countries	3.09	1.32
17. Generally speaking, I think consumers who protest and stop buying a company's product due to its actions in some other country are not being fair	4.00	1.30
18. I feel that a company's only major responsibility is to its shareholders	3.78	1.17
19. I do not feel a company should interfere with human resources practices in its supplier plants	3.64	1.21
20. Maximizing profits should be the single most important goal of international business operations	3.64	1.17
21. A good host country government is someone who is on our side	3.36	1.18
22. The main reason a company should actively take care of its image in other countries is that it allows us to make money in those countries	3.30	1.25

## APPENDIX 2

continued

Question	Mean	Standard deviation
23. It is Ok to sell drugs and chemicals not approved by our government in foreign countries, as long as their government does not have such rules	3.71	1.34
24. Host countries have no right to ask foreign companies to do anymore than what they have agreed too contractually	3.38	1.21
25. Local governments have no right to ask foreign companies for any kind of assistance or favor for social reasons	3.91	1.00
26. Companies from my country should be able to use any business practice acceptable to a foreign locations even if its is unethical	4.30	0.93
27. It does not make economic sense for a company to have similar pollution standards in foreign countries as they would in their home country	3.65	1.24
28. It does not make sense to refuse to sell weapons to shady regimes	4.03	1.37
29. People who ask companies to act as they would in their home country in foreign countries are ignorant	3.64	1.37

**Appendix 3: Corporate ethics – descriptive statistics, N = 102 (adapted from Hunt et al., 1989)**

Question	Mean	Standard deviation
1. Managers in my company often engage in behaviors that I consider to be unethical	3.93	1.38
2. In order to succeed in my company, it is often necessary to compromise one's ethics	4.25	1.14
3. Top management in my company has let it be known in no uncertain terms that unethical behaviors will not be tolerated	3.74	1.33
4. If a manager in my company is discovered to have engaged in unethical behavior that results primarily in personal gain (rather than corporate gain), he or she will be promptly reprimanded	3.64	1.48
5. If a manager in my company is discovered to have engaged in unethical behavior that results primarily in corporate gain (rather than personal gain), he or she will be promptly reprimanded	3.90	1.35

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B. Elango  
College of Business,  
Illinois State University,  
Normal, IL, U.S.A.  
E-mail: elango@ilstu.edu

Karen Paul and Sumit K. Kundu  
College of Business Administration,  
Florida International University,  
Miami, FL, U.S.A.  
E-mail: karen.paul@fiu.edu; kundus@fiu.edu

Shishir K. Paudel  
School of Management,  
Binghamton University,  
Binghamton, NY, U.S.A.  
E-mail: spaudel1@binghamton.edu