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# The influence of cognitive moral development and leader regulatory focus on employee ethical decision making and behavior

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**The Influence of Cognitive Moral Development and Leader Regulatory Focus on Employee  
Ethical Decision Making and Behavior**

A Dissertation Presented to the  
Faculty of the Department of Management and Entrepreneurship,  
Kellstadt Graduate School of Business  
DePaul University  
In Partial Fulfillment of the Requirements for the Degree of  
Doctorate in Business Administration

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## **Dissertation Committee and Approvals**

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## **Biography**

Brandon Hendrix has worked for the United States government since 2004. He has spent time in various regions of the U.S. and Southwest Asia and hopes to continue traveling the world. His most rewarding experience has been training more than 1,000 U.S. service members to become Agri-business Development Teams. These teams partnered with Afghan farmers to bring their products to local and international markets using techniques that required no fossil fuels.

Brandon started his post high school education in the junior college system and went on to earn an undergraduate degree in Mathematics followed by a Master's Degree in Predictive Analytics.

## Table of Contents

Acknowledgements	3
Biography	4
List of Tables	6
List of Figures	7
Abstract	8
Introduction	9
Literature Review	10
Methodology	22
Results	24
Discussion	26
References	30
Tables	34
Figures	38
Appendices	41
APPENDIX A: Heinz Dilemma – Level of Cognitive Moral Development Scale	42
APPENDIX B: Leader Regulatory Focus Scale	43
APPENDIX C: Harris (1990) Tolerance of (Un)Ethical Behavior Questionnaire	44
APPENDIX D: Demographics	46

### **List of Tables**

Table 1a. Descriptive Statistics and Correlations for Leader Regulatory Focus (Promotion)	35
Table 1b. Descriptive Statistics and Correlations for Leader Regulatory Focus (Prevention)	36
Table 2. Results of Hierarchical Regression Analysis	37

## List of Figures

Figure 1. Hypothesized Model of Relationships	39
Figure 2. Effects of the Interaction of Cognitive Moral Development and Leader Regulatory Focus on Tolerance of Unethical Behavior	40



## Abstract

Recent events in business, private, and public settings suggests that people continue to struggle with ethical issues. This study drew on theories of cognitive moral development and leader regulatory focus to increase our understanding of the forces that shape ethical perceptions, decision making, and behavior. I hypothesized that employee cognitive moral development is *negatively* related to the approval of questionable/unethical behavior. Results indicate employees exhibiting lower levels of cognitive moral development were more accepting of unethical or questionable moral behavior. I also hypothesized that leader regulatory focus would moderate the negative relationship between employee cognitive moral behavior and tolerance for questionable/unethical behavior such that the relationship would be stronger for employees with a prevention focused leader regulation and weaker for a promotion focused leader regulation. Findings indicated that higher promotion focus (Low Prevention Focus) leader regulation strengthened the relationship between employee cognitive moral development and employee tolerance of unethical behavior. This is important in hopes of encouraging leaders to gain a better understanding of how their role impacts the ethical behaviors of their employees.

*Keywords: cognitive moral development, ethical behavior, ethical decision making, leader regulatory focus, prevention focus, promotion focus*

## Introduction

Recent events involving both business and politics seem to suggest that individuals continue to struggle with ethical issues. This is not surprising given the complexity involved in the ethical decision making process. Previous research has focused on either the individual role or situational variables in producing ethical/unethical behavior (Trevino, 1986). However, the proposition of an interactionist model posits that “ethical decision making in organizations is explained by the interaction of individual and situational components” (Trevino, 1986, 602).

Individuals respond to ethical dilemmas based on their cognitive moral development (Kohlberg, 1971; Trevino, 1986), which influences ethical decision making and whether individuals are more inclined to focus on their own self-interests, on society’s views and expectations, or reasoning based on conscience and creating a just society (Kohlberg, 1971). However, in a work setting, employees are also influenced by context. Context can result from situational components arising from the immediate job context, the broader organizational culture, and in large part, a leader’s influence. Research examining leader influence has noted the importance of both being a moral person as well as a moral manager in creating a reputation for ethical leadership (Trevino, Hartman, & Brown, 2000).

Leaders are often seen as influential and powerful individuals and drawing on social learning theory (Bandura, 1977), previous research suggests that leader ethical behavior is reproduced by followers/employees (Mayer, Kuenzi, Greenbaum, Bardes, & Salvador, 2009). That is, employees look to higher levels in the organization for the appropriate way to behave (Mayer et al., 2009). Leaders are responsible for creating and communicating the culture of an organization. This communicates values and expectations to employees. Therefore, leaders can have a very powerful influence on employees and their ethical decision making and behavior.

Overall, this study is designed to increase our understanding of the forces that shape ethical perceptions, decision making, and behavior by considering the interacting effects of the individual with regard to cognitive moral development and leadership influence as a contextual factor through the socio-cognitive principle of regulatory focus. Therefore, this study seeks to contribute to the literature by (1) examining an individual-situational interaction effect on employee ethical decision making, (2) introducing a socio-cognitive explanation of how leadership influences employee ethical decision making as a contextual factor, and (3) examining whether the promotion- or prevention focus of a leader is associated with employee ethical decision making.

In the next section, I further discuss Kohlberg's theory of cognitive moral development as it relates to individual ethical behavior. Next I apply the theoretical framework of leader regulatory focus to support examining the influence of leadership as a contextual factor in further influencing employee ethical behavior. The theoretical section is then followed by my methodology and results section. Lastly, I conclude with a discussion of the potential implications for research and practice related to ethical decision making.

### **Literature Review**

The process of making ethical decisions is complex and requires a person to progress through several stages of evaluation before reaching a final determination of what is and what is not ethical behavior (Trevino & Brown, 2004). This four stage process was developed by Rest (1986) describing four steps of ethical decision making. Rest's (1986) moral development model has received a substantial amount of research attention and has been widely cited in the literature examining ethical decision making (O'Fallon, & Butterfield, 2005; Trevino & Brown, 2004).

This four stage process begins with “a person’s recognition that his or her potential decision or action could affect the interests, welfare, or expectations of the self or others in a fashion that may conflict with one or more ethical standards” (Butterfield, Trevino, & Weaver, 2000, 982).

This moral awareness moves a person toward an evaluation of whether or not a specific action is morally justifiable (moral judgment), which can be further complicated by environmental factors and inconsistencies across their beliefs (Chugh, Bazerman, & Banaji, 2005; Tenbrunsel & Messick, 1999). The resulting judgment then compels a person toward commitment to a moral action (moral motivation), and finally toward character development which occurs when one persistently takes moral actions in the face of opposition (Trevino & Brown, 2004).

Unfortunately, not all individuals reach a level of moral action, particularly when the pressures of the organizational context work to influence, or hinder, the relationship between moral judgment and moral action (Trevino & Brown, 2004).

According to the described process put forth by previous research, the last stage of moral character development is the result of actions that have been repeated so frequently that expectations can be made for given patterns of behavior. That is, if the moral character aspect is present, one could make the argument that the judgment that accompanies this character is also consistent. However, it has been determined that no matter how strong a person’s character is, the situation that they find themselves in is often a better determinant of the morality of the judgments that they make (Bartels, 2008). This aspect of moral judgment is important because people have an unconscious bias toward viewing their own actions as moral, competent, and justifiable (Chugh et al., 2005). So while people may have the ability to recognize ethical issues conceptually and as they pertain to other people, this bias impedes a person’s view of themselves when they are faced with an ethical dilemma (Chugh et al., 2005). Findings from previous

research indicate that the view that a person has of themselves is also a complex issue that further confounds a person's ability to make an ethical decision (Von Hippel, & Trivers, 2011; Kohlberg, 1971). The views that people hold about themselves, their actions, and the actions of others are the direct result of their moral development (Kohlberg, 1971; Butterfield, Trevino & Weaver, 2000; Paulhus & John, 1998). Because people vary in how well they develop morally it should be expected that the ethicality of the judgments that people make would also vary.

### **Cognitive Moral Development**

The second stage of Rest's (1986) moral development model, moral judgment, is an area that has been studied extensively. The most widely recognized theory that has guided most of the empirical research in this area has been Lawrence Kohlberg's theory of cognitive moral development (Kohlberg, 1971; Northouse, 2016; Trevino & Brown, 2004). According to Kohlberg, people's thoughts about moral issues are not predetermined simply by genetics or the things they were taught to believe about morality (Kohlberg, 1971). Instead Kohlberg established the idea that people think about moral issues based on their maturation toward higher levels of moral thought (Kohlberg, 1971). Kohlberg's theory of cognitive moral development is a seminal piece that focuses on three main levels of moral reasoning encompassing six stages of development (Kohlberg, 1971; Northouse, 2016).

Kohlberg (1971) indicates that moral reasoning extends beyond the knowledge required for a person to make ethical judgments relative to a given situation or environment. Instead, moral reasoning is representative of the transformations that occur in a person's thought structure (Kohlberg, 1971). Kohlberg also makes clear that changing stages of cognitive moral development is sequential and happens only after the person has integrated the knowledge of their current level (Kohlberg, 1971). His theory also suggests that the progression through these

six stages changes an individual's values over time and the change in values influences how a person makes ethical judgments (Kohlberg & Hersh, 1977). The frequency of these ethical judgments form an organized systems of thought which dictates the level at which an individual can consistently make moral judgments (Kohlberg & Hersh, 1977).

### *Preconventional Level*

The first identified level of cognitive moral development is referred to as the *preconventional level*. This level describes two distinct stages (Stage 1 and Stage 2) that are characterized by an egocentric understanding of the labels of right and wrong, or good and bad (Kohlberg, 1971). The first stage of cognitive moral development is labeled as *punishment-and-obedience orientation*. This stage of moral development is a type of blind egoism that assesses goodness or badness based on the punishment that is associated with a given behavior (Kohlberg, 1971; Loevinger, 1966). Individuals at this stage of development focus on the direct consequences of their behaviors. Submitting to power and authority does not depend on reverence for an existing moral authority, but focuses mainly on punishment avoidance (Kohlberg & Hersh, 1977). Consequently, actions are seen as morally wrong only if there is a punishment tied to that action.

The second stage of cognitive moral development is labeled as *instrumental-relativist orientation*. Development at this stage places the focus of right and wrong on how well one's own needs are satisfied. Consideration of the needs of other people occurs occasionally but is always secondary to one's own needs (Kohlberg, 1971). There is also little attention given to the reputational impact that results from self-focused actions. Conceptual understandings of reciprocity and fairness do not rely on interpersonal commitment. Conversely, people are seen as sources of supply (Loevinger, 1966). Interpersonal relationships are mainly exploitive and

dependent, but the preoccupation with one's own importance makes the dependency difficult to recognize (Loevinger, 1966; Kohlberg & Hersh, 1977).

### *Conventional Level*

The second level of Kohlberg's theory of cognitive moral development is referred to as the *conventional level* and it describes stages three and four. The conventional level is characterized by an individual's realization of the merit of maintaining social norms. At this level individuals begin to accept the external influences on what is morally correct and will adhere to these expectations even if there is no punishment. The moral evaluation of an action is done by comparing a behavior to societal views and expectations (Kohlberg, 1971). People at this level of cognitive moral development seldom question the justness of the established social norms and dutifully maintain the standards of behavior (Kohlberg, 1981). It is also understood by individuals at this level that behaviors that are considered negative are also harmful to relationships.

The third stage of the model is labeled *interpersonal concordance orientation*. Conduct at the third stage of development includes behaviors that focus on gaining the approval of others by being amiable and conforming to typical ideas about how people should interact with others (Kohlberg, 1971). Individuals at this stage are able to recognize "good" and "bad" intentions (Loevinger, 1966) and begin to value concepts such as trust, loyalty, and gratitude (Kohlberg & Hersh, 1977).

The fourth stage of cognitive moral development is labeled the *law and order orientation*. Social development at this stage focuses on adhering to established rules and maintenance of how social interactions take place. Right and wrong are determined by how well

one fulfills the obligation to duty, respecting authority, and esteeming the existing social order above individual preferences (Northouse, 2016). Those at this stage of development view themselves as a part of a larger society and system of beliefs. Adhering to morality standards at this stage requires that one be both well intentioned and willing and able to meet the requirements of the established standard (Kohlberg, 1971; Kohlberg, 1977). In stage four, it is understood that not following the rules will have “bad” consequences and is therefore understood to be immoral (Kohlberg, 1977).

### *Postconventional Level*

The third level of cognitive moral development is referred to as either *postconventional*, *autonomous*, or *the principled level* (Kohlberg, 1971; Northouse, 2016) and involves stages five and six. Overall, this level seeks to identify the validity and merit of moral principles as they exist outside of established authority mechanisms or group memberships.

Stage five is labeled as *social-contract*, *legalistic orientation*. This stage is similar to the law and order stage in that there is a focus on adhering to established societal norms, but this stage differs in the way that the rights of the individual are recognized as also being important. While it is important for an individual to be free to make judgements and have differing opinions from that of the larger society, the issue of what is most beneficial for society takes precedence over individual rights. When there is a conflict between individual rights and societal benefit there is an expectation that there is an established path for reaching a consensus and that this consensus will serve as the standard for morality since it is based on a “legal point of view” (Kohlberg & Hersh, 1977). The resulting behaviors support an established social contract that prioritizes the idea that the focus should always be to achieve the greatest good for the greatest number of people. These behaviors also keep in mind that perceptions of this type of



optimization is always subject to interpretation and can be changed, unlike the “law and order” orientation described in stage four.

The sixth and final stage of cognitive moral development is labeled the *universal-ethical-principle orientation*. This stage focuses on the individual’s deliberate decision to consistently adhere to ethical principles that are universal and logically comprehensive. These principles are not hard and fast rules but rather seek to achieve and maintain justice, reciprocity and equality of human rights, and respect for the dignity of human beings as individual persons (Kohlberg, 1971).

According to research examining Kohlberg’s theory of cognitive moral development, results indicate that less than 20% of adults in industrialized societies ever reach the postconventional level, where they make their decisions based on an internal moral compass that is driven by upholding moral rights and principles of justice (Trevino, Nieuwenboer, & Kish-Gephart, 2014). Research also shows that the majority of adults in industrialized societies fall within the conventional level, where decisions are based on outside influences, such as by the expectations of significant others and society’s’ rules and laws (Trevino, Nieuwenboer, & Kish-Gephart, 2014).

### **(Un)Ethical Behavior/Decision Making**

An examination of the level of cognitive moral development that a person reaches is important in understanding the ethical behaviors that they are likely to display (Kohlberg, 1971, 1977). Because people rarely make ethical choices above their level of cognitive moral development, the ethics that they employ also follow them wherever they go, including their places of business. In general, business ethics is concerned with evaluating whether or not the

conduct of employees, leaders, and organizations is morally acceptable (Ferrell, Fraedrich, and Ferrell, 2008). The issue with this is that not all businesses have the same ethical standards or process for achieving ethical outcomes.

Unfortunately, assessments of “good” and “bad” are subjective and will depend on the level of moral development achieved by the person observing a given situation. However, it has been established in the literature that higher levels of cognitive moral development result in behaviors that are more ethical than when lower levels of cognitive moral development are present (Kohlberg, 1971,1977). Therefore, in continuing with this line of reasoning and established research, I hypothesize the following:

***Hypothesis 1:*** Employee moral development is *negatively* related to the approval of questionable/unethical behavior.

### **Leadership Influence**

As described above, research examining Kohlberg’s theory of cognitive moral development, indicates that less than 20% of adults in industrialized societies ever reach the postconventional level, where they make their decisions based on an internal moral compass that is driven by upholding moral rights and principles of justice. Research further shows that the majority of adults in industrialized societies fall within the conventional level, where decisions are based on outside influences, such as by the expectations of significant others and society’s rules and laws (Trevino, Nieuwenboer, & Kish-Gephart, 2014). This raises concern about the importance of the power of an authority figure (leader) and/or the power of the situation (context, culture) in influencing employee behavior (Trevino, Nieuwenboer, & Kish-Gephart, 2014). How likely are employees to then succumb to the pressures of an authority figure (leader) or the

situation in following orders, even when those orders are unjust? According to Trevino and Brown (2004), *“Most people are the product of the context they find themselves in. They tend to look up and look around and they do what others around them do or expect them to do”* (p. 72).

In a work setting, employees are influenced by context. As previously indicated, context can result from situational components arising from the immediate job context, the broader organizational culture, and a leader’s influence. Leaders are often seen as influential and powerful individuals. Previous research suggests that leader ethical behavior is reproduced by followers/employees (Mayer, Kuenzi, Greenbaum, Bardes, & Salvador, 2009). That is, employees look to higher levels in the organization for the appropriate way to behave (Mayer et al., 2009). Leaders are responsible for creating and communicating the culture of an organization. This communicates values and expectations to employees. Therefore, leaders can have a very powerful influence on employees and their ethical decision making. Hence, it is proposed that leadership influence should be examined as a potential contextual variable that influences employee ethical decision making and behavior.

Because people attend to the behavioral messages and areas of focus of their leaders, it is important to understand the extent to which these messages and areas of focus influence subordinate behavior. It has been found that employees focus on and are attracted to the messages of ethical leaders because of the way their credibility and legitimacy act as models for the conduct of others (Brown, Trevino, Harrison, 2005). The same study also found that employees emulate leader behavior because of the status that these behaviors communicate within the organization and the power these behaviors have to affect employee decisions, actions, and outcomes (Brown et al., 2005; Trevino et al., 2000). Given that the behavioral focus and the resulting influence of leaders is so strong, it is worth investigating whether this influence

is strong enough to moderate the relationship between an employee's level of cognitive moral development and their ethical decision making and behavior (See Figure 1).

### ***Leader Regulatory Focus***

Regulatory focus theory is derived from the hedonic principle, which states that people seek pleasure and avoid pain (Higgins, 1997). The theory divides the principle into two distinct channels of operational focus, namely *promotion focus* and *prevention focus*. The ability to use these foci to manage pleasure and pain is referred to as *regulatory focus* and can have a significant impact how people feel, think, and behave (Higgins, 1997; Higgins, 1998).

Regulatory focus has been found to be a motivational strategy that can be used to move people toward a goal (Higgins, 2001), where goals are defined “as a concrete cognitive representation of a desired or undesired end state used to guide behavior” (Austin & Vancouver, 1996; Elliot & Church, 1997). As people pursue goals, the ability to regulate thoughts and actions becomes critical for functioning (Lanaj, Chang, & Johnson, 2012). This is known as *self-regulation* and is intended to align one’s behaviors and self-conceptions with appropriate aspirations (Brockner & Higgins, 2001).

The desired end-state for people with a promotion focus is behavioral alignment with how they would like to be, but people with a prevention focus try to match their actual selves with felt duties and responsibilities (Higgins, 1997). In order to move toward the aims of either focus condition, the individual must assess three factors: “(a) the needs that people are seeking to satisfy, (b) the nature of the goal or standard that people are trying to achieve or match, and (c) the psychological situations that matter to people” (Brockner & Higgins, 2001, p.37). The differences in each one of these factors illustrates how the goals assessment for *promotion focus*

and *prevention focus* diverge (Higgins, 1997; Brockner & Higgins, 2001). Additionally, it is important to note that there is also a temperament that is associated with each focus orientation that influences how a person behaves (Elliot & Thrash, 2002). Temperament directs the behavior of individuals because they act as energizers or instigators of good or bad propensities (Elliot & Thrash, 2002) and are described as either *approach* or *avoidance*. Since temperament and regulatory focus converge they must be considered when seeking to explain what shapes behavior in different situations.

### *Promotion Focus*

A *promotion focus* is a concern with a need for advancement, growth, or accomplishment (Higgins, 1998). It has been found that *promotion focus* supports an individual's nurturance needs, provides a strong concept of ideals, and views situations as either gain or non-gain. Goal-setting for this focus orientation establishes standards that reflect hopes, wishes, and aspirations (Brockner & Higgins, 2001). These psychological inputs for promotion focused individuals produces four main outcomes: 1) sensitivity to the presence or absence of positive outcomes; 2) intentional engagement (as called *approach*) as a strategy; 3) confirmation of goal achievement while avoiding missed opportunities; and 4) common expression of emotions that reflect cheerfulness/dejection (Higgins, 1997). A *promotion focus* has been found to be more strongly correlated with the *approach* temperament and behavior (Higgins, 1997; Brockner & Higgins, 2001; Elliot & Thrash, 2002). The actions that accompany *approach* behavior are intended to maximize the results of the expected outcome and the positive emotions associated with the outcome (Brockner & Higgins, 2001). Previous research has also found that this behavioral pattern is positively correlated with extraversion and positive emotionality, and negatively correlated with neuroticism and negative emotionality (Brockner & Higgins, 2001).

### *Prevention Focus*

*Prevention focus* supports an individual's need for security, provides a strong sense of obligations ("oughts"), and views situations as either a non-loss or a loss (Higgins, 1997). The goal orientation of the prevention-focused individual is towards achieving standards as they *should be* according to an established or understood standard (sometimes referred to as an ought) or meeting a responsibility (Higgins, 1997, 1998, 2001). The psychological inputs for this orientation produce 1) a sensitivity for the absence or presence of negative outcomes; 2) avoidance of loss as a strategy; 3) emphasis on finding/preventing errors and mistakes; and 4) common expression of emotions that reflect quiescence or agitation (Higgins, 1997, 1998). Behaviors that are commonly associated with an *avoidance temperament* are positively correlated with neuroticism and negative emotionality, while being negatively correlated with positive emotionality (Brockner & Higgins, 2001).

The personality of people involved also has a role to play in how self-regulation takes place. Personality traits can be classified as representing either approach or avoidance (Elliot & Thrash, 2002, 2010). People with an *approach* motivation tend to take action because they believe that their behavior will result in a positive outcome. Whereas, those who have an *avoidance* motivation tend to take action (or refrain from taking action) because they believe that they can avoid a negative result through their behaviors (Elliot & Thrash, 2004). Theory and research suggests that the approach motivation is linked to extraversion, positive affectivity, behavioral activation, learning, and performance-approach goal orientation, whereas neuroticism, negative affectivity, behavioral inhibition, and performance-avoidance goal orientation are characterized by avoidance motivation (Lanaj, Chang, & Johnson, 2012).

Regulatory focus can also be shaped by the environment in which a person finds

themselves. Environmental considerations are important because the type of behavior that emerges from the leader varies based on the contextual characteristics of the leadership role (Shamir & Howell, 1999). Within the context of the work environment, the focus of the leader may impact both their motivation to lead as well as the behaviors they choose to exhibit (Kark & Van Dijk, 2007). Because the majority of leadership definitions assume that subordinates are influenced by leader behavior (Yukl, 1994), it is also reasonable to assume that subordinates may tend to shift their behaviors so that they mirror the behaviors of those in charge of them. It has also been found that leader behaviors shape the self-concept of subordinates and transmit values to them about the organization (Lord & Brown, 2001; Kark & Van Dijk, 2007). Subsequently, the actions of a leader can influence the regulatory behaviors that emerge among that leader's employees (Lord & Brown, 2001).

Given the described differences between promotion and prevention focused behavior, it is believed that the promotion focused approach may encourage riskier behavior than its prevention focused counterpart, which could carry more of an impact on the specific organizational behavior of ethical decision making. Therefore, I hypothesize the following:

***Hypothesis 2:*** Leader regulatory focus moderates the negative relationship between employee moral behavior and tolerance for questionable/unethical behavior such that the relationship is stronger for employees with a prevention focused leader regulation and weaker for a promotion focused leader regulation.

## **Methodology**

### **Participants and procedures**

The research dataset for this study was sourced using CINT, a research firm that provides respondents for consumer and other industry surveys. The data was collected using the Qualtrics

survey platform. There were 362 total respondents. After removing the unqualified responses, a total of 184 were usable (50.8% response rate). The exclusion criteria for unqualified responses included responses that were incomplete, responses where the participant elected not to continue, or those surveys that participants had spent less than 14 minutes completing. The rationale for this time frame was based on initial pilot studies that indicated that thoughtful responses took closer to 17 minutes to complete. The demographic information collected identified 116 respondents as female (63%), 65 as male (35.3%), and one respondent chose not to identify a gender. Participants consisted of working adults from across the United States that ranged in age from 18-65 years. Age brackets were defined as 18-25 (4.3%), 26-35 (21.7%), 36-45 (30.4%), 46-55 (29.3%), 56-65 (13.0%).

The vast majority of the respondents racially identified as White (72.3%) and were from suburban geographic locations (45.7%). These participants also reported having at least some college education (32.1%), with 35.3% of them earning a bachelor's degree or above. All respondents were willing participants and were given the chance to review the purpose of the survey and to opt out if they chose. There were no negative consequences if respondents decided not to participate or changed their mind after starting. After agreeing to participate, respondents were asked to read a number of scenarios describing acts of unethical behavior. The scenarios were followed by questions about their background (e.g., demographic information), individual differences (e.g., personality), and questions related to the participant's perception of the behavior.

## **Measures**

**Cognitive Moral Development (CMD).** Cognitive moral development was measured using the Heinz Ethical Dilemma questionnaire (Ricci & Letch, 2004) (See Appendix 1A).



Respondents were given the opportunity to pick one of six choices that would indicate a level of moral development. Each response corresponded to a specific level within Kohlberg's Theory of Cognitive Moral Development.

**Leader Regulatory Focus (LRF).** Leader regulatory focus was measured using Higgins' (2001) 11-item scale (See Appendix 1B). This set of questions asked how frequently specific events actually occurred in a respondent's life. The participants indicated the frequency with which each event occurred on a five point Likert scale that ranged from 1 (*never or very seldom*) to 5 (*certainly or very often*).

**(Un)Ethical/Deviant Behavior.** Unethical/Deviant behavior was measured using Harris' (1990) business practice questionnaire. This 15-item instrument was used to measure perceptions of unethical behavior. This instrument consists of scenarios measuring deceit, fraud, coercion, influence dealing, and self-interest. Participants were asked to indicate their evaluation of each scenario using a five point Likert scale that ranged from 1 (*strongly approve*) to 5 (*strongly disapprove*) (See Appendix 1C).

## Results

The descriptive statistics and correlations for the variables in the study's model are presented in Table 1a for the promotion focused approach and Table 1b for the prevention focused approach. To test the hypotheses regarding the interactive effects of Cognitive Moral Development (CMD) and Leader Regulatory Focus (LRF) on ethical decision making (dependent variable), I conducted a moderated hierarchical regression analysis (Aiken & West, 1991; Anderson, 1986; Cohen, Cohen, West, & Aiken, 2013). The variables for cognitive moral development (the main independent variable) and leader regulatory focus (moderating variable) were standardized using a centering approach. Both cognitive moral development and leader

regulatory focus were entered into the regression in block 1 with tolerance for unethical decision making behavior as the dependent variable. The interaction variable was created by multiplying the centered cognitive moral development variable and the centered leader regulatory focus variable. The interaction between cognitive moral development and leader regulatory focus was then entered into the regression in block 2 to measure the moderation effect. In order to isolate the type of regulatory focus being observed, I entered each type into the regression (See Table 2).

As indicated above, to test my model I used moderated hierarchical regression. I proposed in hypothesis 1 that employee moral development is negatively related to tolerance of questionable/unethical behavior. This hypothesis was found to be statistically significant and was thus supported (See Table 2).

In hypothesis 2, I proposed that leader regulatory focus moderates the negative relationship between employee moral behavior and tolerance for questionable/unethical behavior, such that the relationship is stronger for employees with a prevention focused leader regulation and weaker for a promotion focused leader regulation. The results for this hypothesis were also statistically significant and therefore hypothesis 2 was supported (See Table 2). Figure 2 shows the cognitive moral development and leader regulatory focus interaction on tolerance for questionable/unethical behavior. As predicted, the negative relationship between cognitive moral development and tolerance for questionable/unethical behavior was stronger when the leader regulation was prevention focused and weaker when the leader regulation was promotion focused.

While control variables were recorded from participants of the study, they were omitted from the final analysis because they absorbed so much of the variance that I could not obtain any conclusive results.

## Discussion

The complexities that make up ethical decision making seldom get more than a cursory mention, much less a proper conversation about them. And, despite the frequent talk about ethics and the need to avoid wrongdoing, it is clear that a real understanding of the components of ethical behavior are not very well understood. What is understood from previous research is that people's behavior tends to conform to the environments they find themselves in and that their individual leanings are generally secondary causes of their actions (Trevino, 1986). The current study examined the extent to which an individual's level of cognitive moral development influences the types of ethical decisions that they will tolerate, and if this tolerance changes based on the regulatory focus of the leadership that they are under.

My first hypothesis proposed that an employee's level of cognitive moral development would be inversely related to their willingness to approve of what could be described as questionable or unethical behavior. More specifically, I wanted to determine if people with higher levels of cognitive moral development would be less tolerant of unethical behavior than those with lower levels of cognitive moral development. The results from this study support this hypothesis.

My second hypothesis expected to find that a leader's regulatory focus would change the unethical tolerance level of an employee such that leaders with a promotion focus would encourage greater unethical tolerance, while those with a prevention focus would encourage and perhaps in some ways model moral expectations. This hypothesis was also supported by the results in this study.

## Theoretical Implications

The work of Kohlberg demonstrated that peoples' actions and reactions to ethical dilemmas was largely dependent on their level of ethical development (Kohlberg, 1971). In addition to supporting this previous work, the current study finds that higher levels of cognitive moral development is negatively related to the tolerance of unethical behavior, and that a leader's regulatory focus can become a contextual factor in how employees view ethical decisions and the work environment. These results fill a gap in the ethical literature by examining the role of cognitive moral development and leader regulatory focus as antecedents for ethical behaviors in the workplace. Because leaders have the potential to have such a strong influence on workplace culture and settings, it may be worth conducting further studies to better understand how leaders and employees can be more mindful of using cognitive moral development and leader regulatory focus toward making better ethical choices.

### **Practical Implications**

The results of this study have several practical implications. First, ethical leadership is important because leader behavior communicates ethical expectations. My findings suggest that when people observe ethical behavior by those they are subordinate to, they are subsequently more likely to make ethical behavior a priority for themselves. Furthermore, because leader ethical behavior is likely to be reproduced by followers (Mayer et. al, 2009), the importance of modeling ethical actions within an organization must be understood by those that are entrusted with leadership roles. Having a leadership role without also realizing the ethical responsibility associated with the position is potentially disastrous for the organization.

The second practical implication from the results of this study is that organizations may be able to assess their employees' behavior in a way that they were previously unable. It can be easy to point to one or two "bad apples" when ethical lapses take place within a given industry or

organization. In some cases ethical issues are not identified until well after they happen. However, because the level of cognitive moral development of individuals can be assessed, it may also be able to determine the organization's average potential for heading down an unethical path. This information can be used to screen and select new employees, or it may be used to identify employees and supervisors with a higher propensity to engage in unethical activities that have reputational, opportunity, or financial costs for organizations. This would allow for leaders to appropriately manage and encourage ethical behavior from those most susceptible.

Lastly, knowing the level of cognitive moral development among employees can also lead to better training plans that specifically target the employees' level of understanding for ethical issues. Training that is intended to avoid the penalty of being unethical should be conducted where it is most effective. Companies spend large sums of money annually to avoid the penalties of being found ethically deficient. Conducting these trainings and assuming that everyone has the same starting point can prove to be doubly costly if the training dollars are spent and the company still doesn't avoid trouble. Ultimately, having a better understanding of employee cognitive moral development could allow for more effective attempts to improve organizational ethics.

### **Limitations and Future Research**

The usefulness of Kohlberg's model is not without its drawbacks. One of the first criticisms of his findings was that his subjects were all male adolescents. Because of the population that he selected, his results may not generalize as well as purported. The research on moral reasoning suggests that male moral reasoning revolves primarily around justice, while female moral reasoning is more concerned about the wellbeing of others (Slavin, 2003). The second challenge to Kohlberg's model is that people may not go through the different distinct

stages in the way that his work asserts (Slavin, 2003). Lastly, the theory implies that moral reasoning and moral behavior are equivalent (Woolfolk, 2003). “Regardless of these criticisms, this model is seminal to developing an understanding of what forms the basis for individuals’ ethical leadership” (Northouse, 2016, p. 333).

In this study, I recorded various control variables that unfortunately could not be used due to the way they absorbed the variance within the current sample. This could be addressed with future research by obtaining a larger sample size.

## **Conclusion**

Overall, this study was designed to increase our understanding of the forces that shape ethical perceptions, decision making, and behavior by considering the interacting effects of the individual with regard to cognitive moral development and leadership influence as a contextual factor through the socio-cognitive principle of regulatory focus. This study contributes to the literature through the examination of the individual-situational interaction effect on employee ethical decision making, the introduction of a socio-cognitive explanation of how leadership influences employee ethical decision making as a contextual factor, and the examination of the promotion- or prevention focus of a leader as it associates with employee ethical decision making.

I hope that my findings will encourage additional investigation into understanding ethical behavior and discovering additional antecedents. I also hope that my findings encourage leaders to gain a better understanding of how their role impacts the ethical behaviors of their employees.

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## **Tables**

**Table 1a.** Descriptive Statistics and Correlations with Leader Regulatory Focus (Promotion)

<b>Variable</b>	<b>Mean</b>	<b>SD</b>	<b>1</b>	<b>2</b>	<b>3</b>
1. Tolerance of (Un)Ethical Decisions	2.45	.76	(.88)		
2. Cognitive Moral Development	4.56	1.34	-1.94**	-	
3. Leader Regulatory Focus (Promotion)	3.53	1.01	.201**	-.047	(.82)

*Note.* N = 182

\*  $p < .05$

\*\*  $p < .01$

**Table 1b.** Descriptive Statistics and Correlations with Leader Regulatory Focus (Prevention)

<b>Variable</b>	<b>Mean</b>	<b>SD</b>	<b>1</b>	<b>2</b>	<b>3</b>
1. Tolerance of (Un)Ethical Decisions	2.45	.76	(.88)		
2. Cognitive Moral Development	4.56	1.33	-.194**	-	
3. Leader Regulatory Focus (Prevention)	3.70	1.06	-.352**	.095	(.86)

*Note.* N = 182

\*  $p < .05$

\*\*  $p < .01$

**Table 2.** Results of hierarchical regression analysis

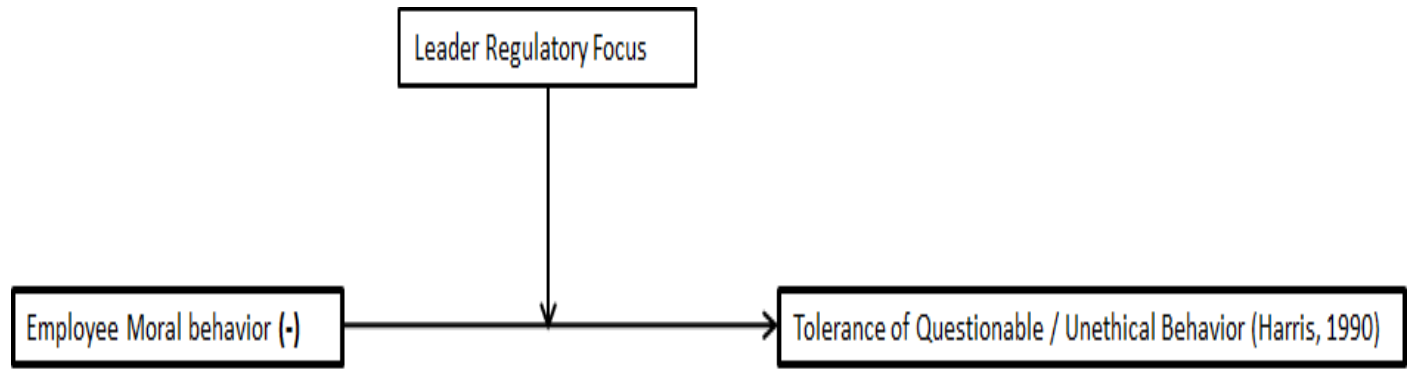
<b>Dependent Variable:</b> Tolerance of questionable ethical decisions		
<b>Independent Variables</b>	Step 1	Step 2
1. Cognitive Moral Development	-0.09 (.02*)	-0.09 (.02*)
2. Leader Regulatory Focus	-0.24 (.00**)	-0.22 (.00**)
3. Leader Regulatory Focus (promotion) x Cognitive Moral Development	-	-.114 (.01*)
R <sup>2</sup>	.15**	.18*
ΔR <sup>2</sup>	.15**	.03*
Adjusted-R <sup>2</sup>	.14**	.16*
F	15.765**	12.860**
df	179	178

Note. N = 182

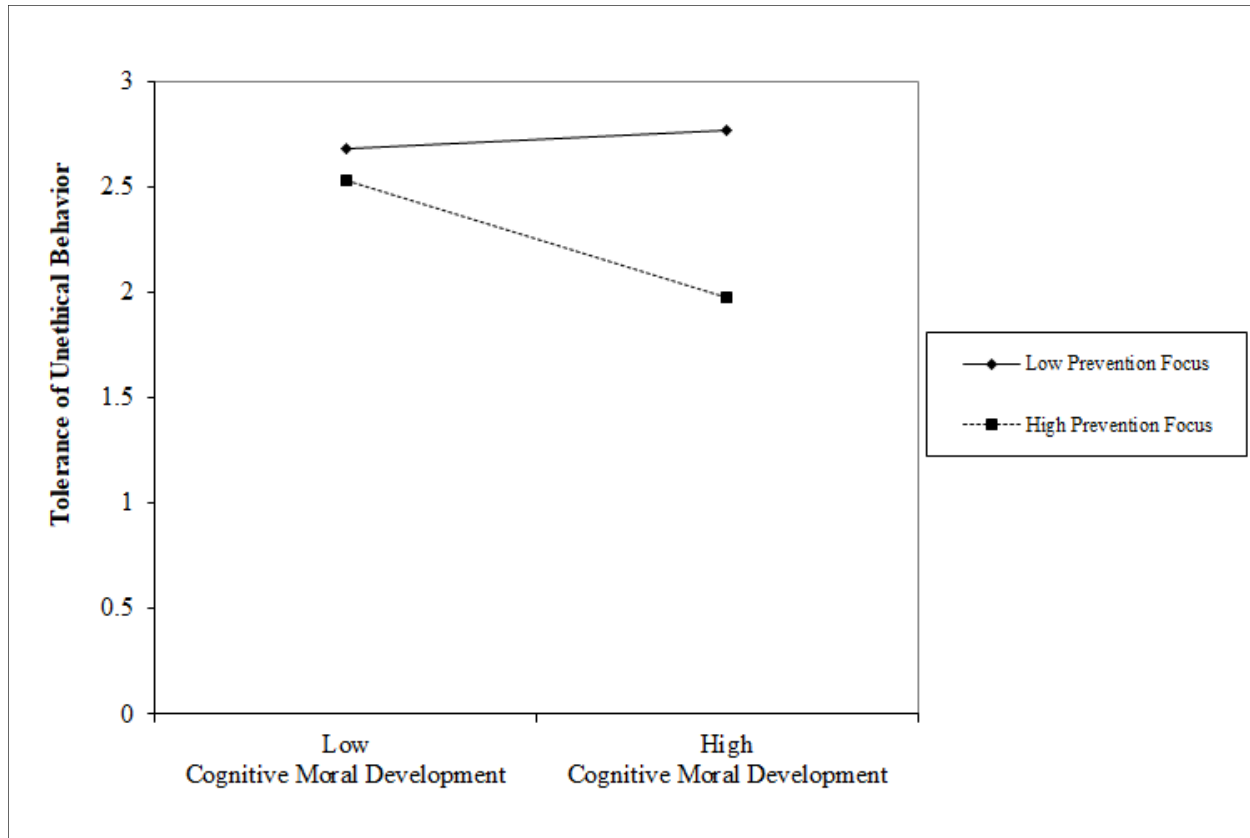
All variables are evaluated at \*\*  $p < .01$ , \*  $p < .05$ ,  $\beta$  reported in the table.

## Figures





**Figure 1.** Hypothesized Model of Relationships.



**Figure 2.** Effects of the Interaction of Cognitive Moral Development and Leader Regulatory Focus on Tolerance of Unethical Behavior.

## **Appendices**

## APPENDIX A: Heinz Dilemma – Level of Cognitive Moral Development Scale

Topic 15 - Heinz Dilemma Name: \_\_\_\_\_ Read and answer the questions to the following dilemma In Europe, a woman was near death from a special kind of cancer. There was one drug that the doctors' thought might save her. It was a form of radium that a druggist in the same town had recently discovered. The drug was expensive to make, but the druggist was charging ten times what the drug cost him to make. He paid \$200 for the radium and charged \$2,000 for a small dose of the drug. The sick woman's husband, Heinz, went to everyone he knew to borrow the money, but he could only get together about \$1,000, which is half of what it cost. He told the druggist that his wife was dying, and asked him to sell it cheaper or let him pay later. But the druggist said, "No, I discovered the drug and I'm going to make money from it." So Heinz got desperate and broke into the man's store to steal the drug for his wife.

### Stage 1: Obedience to authority is considered

Expected Response: **“He shouldn't steal the drug because he might get caught and be punished.”**

### Stage 2: Pleasure-seeking orientation

Expected Response: **“It won't do him any good to steal the drug because his wife will be dead by the time he gets out of jail.”**

### Stage 3: Good boy/good girl orientation

Expected Response: **“He shouldn't steal the drug because others will think he is a thief. His wife will not want to be saved by stealing.”**

### Stage 4: Authority orientation

Expected Response: **“Although his wife needs the drug, he should not break the law to get it. His wife's condition doesn't justify stealing.”**

### Stage 5: Social-contract orientation

Expected Response: **“He should not steal the drug. The druggist response is unfair but mutual respect for the rights of others must be maintained.”**

### Stage 6: Morality of individual principles

Expected Response: **“He should steal the drug but alert authorities he has done it. He will have to face a penalty, but he will save a human life.”**

## APPENDIX B: Leader Regulatory Focus Scale

This set of questions asks you **HOW FREQUENTLY** specific events actually occur or have occurred in your life. Please indicate your answer to each question by circling the appropriate number below it.

1. Compared to most people, are you typically unable to get what you want out of life?

1	2	3	4	5
never or seldom		sometimes		very often

2. Growing up, would you ever “cross the line” by doing things that your parents would not tolerate?

1	2	3	4	5
never or seldom		sometimes		very often

3. How often have you accomplished things that got you "psyched" to work even harder?

1	2	3	4	5
never or seldom		a few times		many times

4. Did you get on your parents' nerves often when you were growing up?

1	2	3	4	5
never or seldom		sometimes		very often

5. How often did you obey rules and regulations that were established by your parents?

1	2	3	4	5
never or seldom		sometimes		always

6. Growing up, did you ever act in ways that your parents thought were objectionable?

1	2	3	4	5
never or seldom		sometimes		very often

7. Do you often do well at different things that you try?

1	2	3	4	5
never or seldom		sometimes		very often

8. Not being careful enough has gotten me into trouble at times.

1	2	3	4	5
never or seldom		sometimes		very often

9. When it comes to achieving things that are important to me, I find that I don't perform as well as I ideally would like to do.

1	2	3	4	5
never true		sometimes true		very often true

10. I feel like I have made progress toward being successful in my life.

1	2	3	4	5
certainly false				certainly true

11. I have found very few hobbies or activities in my life that capture my interest or motivate me to put effort into them.

1	2	3	4	5
certainly false				certainly true

**Scoring Key:**

$$\text{Promotion} = [ (6 - Q1) + Q3 + Q7 + (6 - Q9) + Q10 + (6 - Q11) ] / 6$$

$$\text{Prevention} = [ (6 - Q2) + (6 - Q4) + Q5 + (6 - Q6) + (6 - Q8) ] / 5$$

$$\text{RF} = \text{promotion} - \text{prevention}$$

## APPENDIX C: Harris (1990) Tolerance of (Un)Ethical Behavior Questionnaire

### Business practice questionnaire

The following situations describe some aspect of business practice. You are asked to evaluate each scenario and respond with your degree of approval or disapproval of the described action. After each situation, there will be a scale such as the following:

Approve \_\_\_\_\_ Disapprove

Please indicate your response by placing an "X" in the space which best describes your feelings regarding the situation as explained.

- A. Daily, Inc. is a leading manufacturer of breakfast cereals. Conscious of the market shift toward more healthful foods, it recently added a line of all fiber cereals to capitalize on this trend and directed its advertising agency to prepare ad copy which stresses that this cereal helps prevent intestinal cancer among regular users even though there is no scientific evidence to prove or disprove this fact.

Approve \_\_\_\_\_ Disapprove

- B. State Electric, a publicly held electrical generating company, is faced with rapidly escalating costs of its low sulfur coal which it purchases from midwestern suppliers. Reliable estimates show this price trend to continue over the next five years necessitating an across-the-board price increase to customers. Lower cost, high sulfur coal is readily available; however its use will increase State's overall pollution emissions by 25%. Management opts for the high sulfur coal rather than raising the cost per KWH to customers.

Approve \_\_\_\_\_ Disapprove

- C. Doug Watson is a salesman for Delta Drug Company and is responsible for calling on both physicians and pharmacists in a two state area. With commission and bonuses, his annual salary averages about \$32,000. Doug has made it a practice of supplementing his salary by at least \$1,200 by padding his expense account. He rationalizes this behavior by saying that everyone else in the business is doing it.

Approve \_\_\_\_\_ Disapprove

- D. Frank Pollard, Executive Vice President of United Industries calls the personnel director of one of their major suppliers and asks in a non-threatening way that his nephew be interviewed for a job in their organization. The personnel director complies with Pollard's request and arranges for the interview. Pollard's nephew fails miserably on the aptitude test which is required of all applicants; but is hired anyway because United is one of their biggest accounts.

Approve \_\_\_\_\_ Disapprove

- E. One of America's largest automobile manufacturers is the corporate sponsor of the popular TV series ANYTOWN VICE. The sponsor has been approached by a national coalition of concerned citizens as to the impact of this program on the morals of today's youth. The coalition demands that the sponsor exert its influence on the show's producer to tone down the sex and violence on the program. The sponsor's reply to the coalition is, in essence, that "our job is to sell cars not censor what the public wants to watch on TV"

Approve \_\_\_\_\_ Disapprove

- F. Kiddie Textiles, Inc. a manufacturer of childrens' sleepwear, responded to the appeal by the National Safety Council and treated its entire fall line with the flame retardant agent TRIS. Research found this to be a carcinogenic agent and TRIS treated textiles were subsequently banned from sale in the U.S. Left with more than one million dollars in inventory of the banned products, Kiddie sold the entire lot at cost to an export agent whom it was sure would sell the TRIS treated sleepwear to markets in underdeveloped countries which had no such ban.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

- G. The U.S. Patent Office recently issued an exclusive patent to Tiger Automotive for a fuel efficient device which has been proven to increase the average car's mileage by 45%. Given that Tiger is protected from direct competition by its patent, it has decided to price its new product at \$45 to auto parts dealers even though it costs less than \$1 to produce and distribute.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

- H. A major supermarket chain, Big Save, has been approached by a group of community leaders requesting that the firm locate a store in the inner-city. They desire that low income families, who have little access to the better priced supermarkets in the suburbs, be given an alternative over the higher priced, small grocers who serve the inner-city market. Citing higher costs of facilities and losses due to pilferage and vandalism, Big Save decides not to comply with the group's request.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

- I. For years the American tobacco industry has been subjected to criticism questioning the legitimacy of its products in the marketplace. More recently, various local action groups have been moderately successful in imposing bans against smoking in public places as well as the workplace. At the Federal level, smoking is prohibited on all regulated airline flights of two hours or less. Feeling that this is a critical issue which may bring about widespread bans against smoking, the tobacco trade association has more than doubled its budget for lobbying efforts to reverse this rule.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

- J. Johnny Jones is the sales manager for a local automobile dealership. One of his responsibilities is to train new salespersons as they come into the organization. Experience has shown that one of the most difficult tasks in selling automobiles, as in selling other goods, is closing the sale. Jones feels that some customers need to be helped into the decision to buy a particular car, so he teaches his new salespersons several high pressure techniques proven to be successful in closing the sale.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

- K. First Department Stores, with six suburban locations throughout the metropolitan area, is the largest advertiser in *The Planet Daily News*. The newspaper has been running a series of articles to educate consumers how to better protect their interests in the marketplace. Steve Adams, President of First Department Stores, hears by the grapevine that next Monday an article highly critical of First's credit policies will be featured in the newspaper. The preceding Friday he contacts the editor of the *Planet* and threatens the withdrawal of all advertising if the feature is run.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

- L. Management of Durable Copy Machines, Inc. has word from reliable sources that its chief competitor is about to unveil a new model which, in all likelihood, will sweep the market and make substantial inroads into Durable's market share and profitability. Sam Samuels, head of engineering for Durable, plays golf regularly with a member of the competitor's design department and is aware of his dissatisfaction with amount of his recent raise. Being made aware of this fact, top management at Durable has instructed personnel to "hire that employee at any cost".

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

- M. The Borden Company is a supplier in the highly competitive building supply industry. In the past, it has experienced difficulty in maintaining customer loyalty among builders and contractors. To address this problem, Borden has developed a plan whereby customers are given points for every \$500 worth of merchandise they buy throughout the year. At the end of the year customers are awarded an all-expense vacation for two to various resort areas depending on the number of points accumulated. Prices are, of course, increased to cover this expense.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

- N. Todd Jackson is the purchasing agent for Wyler Industries and has final say on which of numerous suppliers his firm will buy from. Conscious of the magnitude of purchasing dollars he controls, Jackson has let it be known that in those situations where price and other things are equal, his decision to purchase from a particular vendor can be swayed by the receipt of an "appropriate" gift.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

- O. John Smith has been recently employed by General Supply, Inc. as a sales rep and has taken over the territory which includes among its potential customers Wyler Industries (mentioned above). General has been unsuccessful in selling to Wyler in the past because it has a strict policy against using company funds to provide gifts to any customer or prospective customer. As a novice in the selling profession, Smith is determined to make a sale to Wyler Industries even if he has to pay for a gift for Todd Jackson out of his commission on the sale.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

## APPENDIX D: Demographics

### Measure: Demographics

Instructions: The following questions seek to gather a bit of information regarding your demographic, educational, and experiential background. There are no right or wrong answers to any of the questionnaire items. Please read all of the questions carefully and answer the questions as honestly and thoughtfully as possible. Any answers you provide will be completely confidential.

1. **Gender:** Female/Male/Other
1. **Age:** [select an age range]
1. **Ethnicity:** Caucasian/Black or African-American/Hispanic or Latino, Latina/Asian/Pacific Islander/Native American/Other
1. **Geography:** Urban/Suburban/Rural
1. **Education Level:** Some High School/High School Diploma/Some College/College/Graduate School or beyond
1. **Income:** [select a salary range]
1. **Professional Experience:** What is your profession/title?
1. **Number of Years of Professional Experience:** How many years of professional/work experience do you have?
9. **Ethics Training:** Have you ever received any general ethics training?