INSTITUTIONALIZATION OF ETHICS: A
CROSS-CULTURAL PERSPECTIVE

DISSERTATION

Presented to the Graduate Council of the
University of North Texas in Partial
Fulfillment of the Requirements

For the Degree of

DOCTOR OF PHILOSOPHY

By

Anita Jose, B.A., M.B.A., M.MGT.
Denton, Texas
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Business ethics is a much debated issue in contemporary America. As many ethical improprieties gained widespread attention, organizations tried to control the damage by institutionalizing ethics through a variety of structures, policies, and procedures. Although the institutionalization of ethics has become popular in corporate America, there is a lack of research in this area.

The relationship between the cultural dimensions of individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity and the perceptions of managers regarding the institutionalization of ethics is investigated in this study. This research also examined whether managers' level of cognitive moral development and locus of control influenced their perceptions.

Data collection was performed through a mail survey of managers in the U.S. and India. Out of the 174 managers of American multinationals who responded to the survey, 86 were Americans and 88 were Indians. Results revealed that managers' perceptions were influenced by the four cultural dimensions. Managerial perceptions regarding the
effectiveness of codes of ethics and the influence of referent groups varied according to their nationality. But, managers from both countries found implicit forms of institutionalizing ethics, such as organizational systems, culture, and leadership to be more effective in raising the ethical climate of organizations than explicit forms such as codes of ethics, ethics officers, and ethics ombudspersons. The results did not support the influence of moral reasoning level and locus of control type on managerial perceptions. The results suggested that in order for ethics institutionalization efforts to be successful, there must be a fit or compatibility between the implicit and explicit forms of institutionalizing ethics.

The significance of this study rests on the fact that it enriched our understanding of how national culture affects managerial perceptions regarding the institutionalization of ethics. This is the first comparative study between U.S. managers and Indian managers that examines the variables, both explicit and implicit, which influence how ethical values are cultivated and perpetuated in organizations.
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CHAPTER I

INTRODUCTION

Background

Business ethics is a much debated issue in contemporary America (Akaah, 1992; Barnett, 1992; Dierkes & Zimmerman, 1994; Dolenga, 1990; Epstein, 1987, 1989; Smith, 1990; Stead, Worrell, & Stead, 1990; Townley, 1992; Vogel, 1992, 1993). Newspapers, magazines, and prime-time television shows have devoted much space and time to recurring scandals. Incidents such as the Bhopal Gas tragedy, insider trading on Wall Street (Moser, 1988), the Exxon Valdez oil spill, the Dow Corning bankruptcy, and the Jack-in-the-Box disaster, have brought the issue of ethics to the forefront of everybody's agenda. Both the public and the academic interest in the ethical issues of business have been on the increase in the last decade (Carlson & Perrewe, 1995; Murphy, Smith, & Daley, 1992; Posner & Smith, 1987; Vogel, 1991).

Ethical issues involve deciding what is right or wrong, good or bad, just or unjust (Adelman, 1991; McDonald & Zepp, 1990; Weiss 1994). The question of morality is multidimensional since a variety of factors--individual, social, legal, and cultural--intertwine and influence moral
reasoning and consequent behavior (Barnett & Karson, 1989; Bommer, Gratto, Gravander, & Tuttle, 1987; Davis & Welton, 1991; Ferrell, Gresham, & Fraedrich, 1989; Fraedrich, 1992; Paradice & Dejoie, 1991; Singhapakdi & Vitell, 1990; Stead, Worrell, & Stead, 1990; Trevino, 1986, 1987, 1992; Trevino & Youngblood, 1990). The question of good or bad, right or wrong, is also a relative concept that may be answered using different ethical theories, such as deontology, utilitarianism, and relativism (Carroll, 1990; Martin, 1991; Reidenbach & Robin, 1990, Velasquez, 1982).

Organizational environment, by its nature, is a fertile ground for moral dilemmas (Aram, 1986; Barnett, 1992; Boling, 1978; Gellerman, 1986; Von der Embse & Wagley, 1988). Organizations are open systems that interact with the environment and other systems in order to serve various stakeholders and achieve objectives (Kast & Rosenzweig, 1979). Since various stakeholders have different goals and motives, the interaction process can be a painful one generating conflicting situations where ethical issues are often raised (Etang, 1995); these ethical dilemmas are solved using the process of ethical reasoning (Fimbel & Burstein, 1990; Fraedrich, 1992). Research has shown that in strategic and administrative decisions, managers have to deal with moral conflicts (Frederick & Weber, 1987).
As more and more ethical improprieties gained widespread criticism, organizations tried to control the damage by institutionalizing ethics (Gellerman, 1989; Murphy, 1988; Stevens, 1994). In order to provide ethical guidance to employees, some corporations made structural and procedural changes such as the creation of new positions and increased formalization (Austin, 1994; Badaracco, 1995; Briggs & Bernal, 1992; Cressey & Moore, 1983; Stevens, 1994; Weiss, 1994). Ethics ombudsmen and ethics committees are examples of the creation of new positions to manage ethical concerns; corporate codes of ethics and ethics newsletters are examples of increased formalization. Some researchers (Bennett, 1988; Berenbeim, 1987; Gray, 1990; Wartzman, 1987) are skeptical about the effectiveness of these structural devices since many companies use these devices for public relations purpose.

Although the institutionalization of ethics has become increasingly popular in Corporate America, there is a lack of research in this area (Laczniak & Inderrieden, 1987; Weeks & Nantel, 1992). Instead of studying the various methods by which corporations are trying to instill values, academics have been more interested in proposing new theories and models of ethical decision making. For example, in the last ten years, at least seven new comprehensive models (Bommer et al., 1987; Ferrell & Gresham, 1985; Hunt & Vitell, 1986, 1992; Trevino, 1987;
Jones, 1991; Whalen, Pitts, & Wong, 1991) have been proposed that are ready to be tested. All of these comprehensive models have theorized that ethical decision making is a complex process that is influenced by a variety of organizational, individual, situational, and external environmental factors.

Given the infancy of business ethics as a branch of study, it is understandable that theory building had been academicians' first priority; but, now the focus has shifted from theory building to theory testing. Most of the researchers (e.g., Abassi & Hollman, 1987; Akaah, 1989; Arlow, 1991; Borkowski & Ugras, 1992; Brabeck, 1984; Kidwell, Stevens, & Bethke, 1987; Nichols & Day, 1982; Shepard & Hatenian, 1991; Singhapakdi & Vitell, 1993; Stratton, Flynn, & Johnson, 1981; Weber, 1990b) who tested the multiple influence models described in the preceding paragraph concentrated their efforts on the different individual variables that affect decision making. As a result, there is a lack of research about the different organizational variables that influence ethical decision making. In order to remedy this problem, this research effort looks at the various organizational variables, such as codes of ethics, reward systems, leadership, culture, referent others, and ethics training that influence ethical decision making in companies.
Another area that needs investigation is the effect of culture on ethical decision making (Bommer et al., 1987; Trevino, 1992). Researchers (Hunt & Vitell, 1986; 1992; Rest, 1979, 1986; Trevino, 1992; Vitell, Nwachukwu, & Barnes, 1993) have pointed out that culture has a significant influence on people's awareness and evaluation of ethical problems. Yet, only few studies in business ethics have looked at the influence of national culture (Bommer et al., 1987; Hunt & Vitell, 1986, 1992; Nyaw & Ng, 1994). So, now it is time to change the focus from micro-environmental factors, such as individual variables, to macro-environmental variables, such as culture and laws, which affect ethical decision making in organizations.

The issue of culture becomes all the more important as companies cross their national boundaries and establish subsidiaries and joint ventures in other countries. For multinational corporations, the issue of ethics is complicated because of the differences in the cultures of the countries in which they operate (Buller, Kohls, & Anderson, 1991; Duerden, 1995). Researchers are at loggerheads as to the extent to which culture affects people's ethical attitudes, values, and behavior. Whereas some scholars such as England (1975) and Becker & Fritzshe (1987) find culture to be a significant variable in ethics, others (Kohlberg, 1969; Kohlberg, Levine, & Hewer, 1983) opine that there is a universal ethical component. A theory
of global ethics that cuts across racial, cultural, and geopolitical boundaries is needed so that multinational managers can find the universal common factor that enables them to take the appropriate decisions in achieving their organizational objectives (Buller et al., 1991).

Given the fact that there are hardly any unified theories of ethics, national as well as multinational managers are trying to formulate their own codes of ethics in consonance with the environments in which they operate, and thus are institutionalizing ethics. For example, Exxon has drafted a special code of ethics for its employees in each of the countries it operates (Trewatha, Newport, & Johnson, 1993). The growing popularity of codes of ethics and other structural devices is an endorsement to this trend toward institutionalization (Weiss, 1994); but, more research is needed regarding the influence of culture on the institutionalization of ethics.

Statement of the Problem

Researchers (Bommer et al., 1987; Finn, Chonko, & Hunt, 1988; Fleming, 1986; Trevino, 1986, 1992) contend that more empirical research needs to be done in order to understand the various individual, organizational, and environmental influences that affect the ethical decision making of individuals in organizations. Studies (e.g., Hegarty & Sims, 1979; Laczniak & Inderridean, 1987; Trevino &
Youngblood, 1990; Weeks & Nanthel, 1992) have shown that organizational variables influence individuals to act either ethically or unethically. Among the different organizational influences, variables such as culture, leadership, reward systems, referent others, codes of ethics, ethics committees, and ethics training deserve particular attention because these are the implicit and explicit methods by which values are institutionalized in organizations (Brenner, 1992). Yet, there is a lack of research in this area (Trevino, 1992).

Another area worthy of investigation is the influence of culture on people's ethical attitudes and beliefs (Akaah, 1990; Buller et al., 1991; Izraeli, 1988; Nyaw & Ng, 1994; Vitell et al., 1993) and how culture affects the different ways by which organizations try to instill values in their employees (Vitell et al., 1993). As business becomes more global, the need to find a common thread with regard to business ethics becomes more and more pronounced irrespective of the ethnic, socio-cultural, politico-legal differences in the backgrounds of decision makers (Buller et al., 1991). Most of the studies in managerial ethics have confined themselves to American samples. This is rather unfortunate as the definition of marketplace becomes the world.

Many researchers have recommended cross-cultural studies to overcome the problems of convenient geographical
sampling; however, the few cross-cultural studies that have been undertaken are confined to either developed countries (e.g., Akaah, 1990; Lysons & Gaidis, 1991) or newly industrialized nations (e.g., McDonald & Zepp, 1988; Swinyard, Rhine, & Kau, 1990; White & Rhodeback, 1992). There are very few studies in business ethics literature that involve developing nations. As more multinationals enter developing countries, it is important that more is known about the cultures of these countries and how those cultures influence people’s behavior in organizations (Izraeli, 1988). Therefore, there is all the more reason for corporate ethics researchers to focus more attention on cross-cultural comparisons involving developing nations. Thus this research, which compares the perceptions of U.S. managers and Indian managers regarding the institutionalization of ethics, answers the call to fill the void in cross-cultural ethics research.

Asia, the largest continent and the biggest potential marketplace for all products and services, has been an underdeveloped market for various historical and political reasons; but, the times are changing and the sleeping giants of Asia, viz. China and India, have awakened to the realities of marketplace and are in the throes of market and economic development (Rohwer, 1993). Business that has been, by and large, the domain of government in these two countries, is now experiencing the refreshing breath of
liberalism. As a result, many Western multinationals wishing to seize the advantage have rushed into these countries, especially to India (Abdoolcarim, 1994; Business Week, 1993; Gilman, 1992; Hazarika, 1994; Jacob, 1993; Smart, Engardio, & Smith, 1993; The Wall Street Journal, 1994). Examples of U.S. multinationals that have entered India in the 1990s include General Electric, McDonalds, Microsoft, Cargill Inc., International Business Machines, PepsiCo, and Coca-Cola.

In view of the different operating environments of U.S., the home country and India, the host country, such a rush of organizations operating in a different business and cultural milieu is bound to be accompanied by a deluge of ethical problems, for both the companies and the host country. In order to overcome the ethical dilemmas cropping up in new operating environments, many organizations have turned to formulating codes of ethics to guide employee interaction and behavior (Trewatha et al., 1993). Such development of codes is the first step toward the institutionalization of ethics in an organization wherein it tries to cope with the moral problems arising out of its interaction with its environment.

Despite many companies having traveled far down the road to institutionalize ethics, researchers are split in their opinion as to the real impact such institutionalization has had in influencing ethical behavior (Berenbeim,
Researchers (Berenbeim, 1987; Wartzman, 1987) point out that codes of conduct, the primary vehicle of institutionalization, are too general, too vague, and are often used for public relations purposes, or as tools for avoiding legal hassles (Murphy, 1988). It is also interesting that in an international study regarding managerial attitudes toward social responsibility, managers from the United Kingdom (UK) and India thought that written company codes of ethics were not of much significance (Khan & Atkinson, 1987).

There has not been any significant research done on managers' perceptions toward the institutionalization of ethics. Most of the "institutionalization" literature has been too theoretical, with the focus being on codes of ethics (Stevens, 1994). The empirical research on corporate institutionalization followed the same pattern, whereby researchers (e.g., Chatov, 1980; Cressey & Moore, 1983; Mathews, 1987) analyzed corporate codes of conduct to comprehend their contents. But, as Murphy (1988) and Brenner (1992) note, institutionalization of ethics must be more than drafting a code of ethics; it has to involve top management leadership and changes in organizational culture and operating policies. There are very few comprehensive studies of the perceptions of managers regarding the institutionalization of ethics -- none comparing the perceptions of managers in developed and developing nations.
Purpose of the Study

This study is a cross-cultural comparison of managerial perceptions regarding the institutionalization of ethics in organizations. Specifically, this study investigates the relationship between the cultural dimensions of individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity and the perceptions of U.S. managers and Indian managers regarding both implicit and explicit methods of institutionalizing ethics. This research also investigates whether managers' level of cognitive moral development and type of locus of control influence their perceptions regarding institutionalization.

Significance and Justification

The significance of this study rests on the fact that it is a piece of path-finding research in understanding how national culture affects the perceptions of managers regarding the institutionalization of ethics in organizations. This is the first comparative study, between U.S. managers and Indian managers, that examines the variables, both explicit and implicit, that influence how ethical values are developed, cultivated, maintained, and perpetuated in organizations.

Culture is considered to be an important variable that affects individual values (Adler, 1983; Bartels, 1967; Cortese, 1990; England, 1975, 1978; Hofstede, 1980, 1983,
1991; Laurent, 1981; McClelland, 1961), and presumably ethics (Buller et al., 1991); but, there is not enough research done on cross-cultural ethics (Buller et al., 1991; Izraeli, 1988; Nyaw & Ng, 1994). This study is a direct response to Buller et al.'s (1991) call for research verifying the degree of the consensus on ethics within societies and nations.

Though most of the Fortune 500 companies have institutionalized ethics in their organizations in one form or other (Center of Business Ethics, 1992), researchers are not clear about the perceptions of executives regarding such institutionalization. Logic dictates that the perceptions and opinions of managers who work in the field be ascertained before we embark upon any plan to institutionalize ethics. This study, therefore, is overdue in that it actually goes down to the root of the problem by asking the managers what they think of codes of ethics and such means of instilling values in corporations.

Institutionalization of ethics can be done in two ways: explicitly and implicitly (Brenner, 1992). To date, the sparse empirical research done on the topic has focused on organizational codes of ethics, ethics training, and such explicit ways of instilling values in organizations. But, some researchers argue that the implicit ways of institutionalization such as corporate culture, ethical leadership, and reward system have a more significant
influence on organizational members than all the codes of
ethics put together (Brenner, 1992; Genfan, 1987; Murphy,
1989). This research, which empirically tests the above
hypothesis regarding the institutionalization of ethics,
thereby, contributes to the overall theory regarding the
influence of the various organizational factors on the moral
decision making of managers.

Many multinational corporations have started
formulating specific codes of ethics for their employees in
an effort to overcome the problems and dilemmas experienced
when operating in a hitherto alien environment (Trewatha et
al., 1993). This study assumes special significance in view
of the fact that many U.S. multinationals, such as Coca-
Cola, GE, IBM, PepsiCo, TI, and Microsoft, have chosen to
operate in India, because it analyzes the perceptions of
Indian managers regarding formal codes of ethics and makes a
comparison to the perceptions of U.S. managers.

Thus, this study has ramifications for three areas of
management--organization theory, strategy, and
international. Since many methods of institutionalization
of ethics, such as codes of ethics, ethics committees, and
ethics ombudsman, have structural implication for the
organization, it is of primary concern to organization
theory. Similarly, since many researchers (Christensen et
al., 1965; Freeman, 1984; Freeman & Gilbert, 1988; Keeley,
1983; Minkes, 1995; Milton-Smith, 1995; Weiss, 1994) have
identified the importance of ethics and values in the overall strategy of the organization, this study of managerial ethics has implications for strategic management. The cross-cultural nature of the study has a direct bearing on international management, especially since the study involves a developing and a developed nation.

The area of business ethics is an under-researched one (Bommer et al., 1987). Though much has been said about ethical behavior in business, hardly any substantive research has been done in this field (Trevino, 1986). Thus there is a need for additional research (DeGeorge, 1987). Moreover, researchers need to know more about ethical behavior, the constituents of ethical behavior, unethical practices, the decision processes involved in solving ethical dilemmas, and the factors that influence ethical decision making in organizations (Barnett & Karson, 1987; Forsyth, 1992). Despite the fact that many American corporations are establishing subsidiaries in other countries, there is a lack of cross-cultural studies investigating the influence of culture on ethical decision making in organizations.

In view of the fact that business is becoming more global and many U.S. companies are entering India, it is important that more research is done on India. The operating environment of U.S. companies in India will be totally different from their domestic environment due to the
cultural, social, economic, and political diversity between U.S. and India. For any U.S. corporation to succeed in such an environment, it must enlist the talent of local managers. When local talent comes into contact with an alien organization with different values, attitudes, and business practices, there is bound to be a certain amount of conflict. At the same time, the services of local managers are essential to solve the problems the company will face in a developing nation such as India.

Multinationals use codes and explicit structural devices in order to regulate the situation, but different cultures may have different perceptions regarding the effectiveness of codes. Parent companies need managers to provide feedback in reference to those perceptions of effectiveness. Therefore, it stands to reason that the perceptions of Indian managers regarding the institutionalization of values must be studied in depth and compared to those of U.S. managers before U.S. corporations can surmise that the various institutionalization efforts that were successful in the U.S. will be successful in India.

In summary, the primary justification for the study of the institutionalization of ethics is the lack of scientific research in this field despite the overwhelming popularity of codes of ethics and ethics training among U.S. corporations. The secondary justification is the lack of research investigating the influence of culture on
managerial perceptions and attitudes regarding the various ways ethical values are institutionalized in organizations. The main justification for comparing the perceptions of U.S. managers and Indian managers regarding the institutionalization of ethics comes from the practical reality that more and more U.S. multinationals are going to India with codes of ethics, and this could be at variance with the perceptions of Indian managers regarding the effectiveness of such methods.

Theoretical Underpinnings

Definitions of ethics are galore; however, most of the definitions center around one point, the question of good or bad, right or wrong. For example, according to Sidgwick (1977) ethics is the study of "what ought to be . . . it imparts or seeks the most perfect knowledge possible of the rightness or goodness of voluntary actions or the results." Contemporary as well as ancient theorists have focused on the issue of the fairness and rightness of human actions (Jones, Sontag, Becker, & Fogelin, 1969). As defined in this research, ethics refers to moral reflection and choice with regard to individual and organizational action.

Philosophers from Aristotle to Sartre have grappled with the question of morality. Different writers have taken different approaches to the study of morality. A study of the moral philosophy will reveal the classicism of
Aristotle, Plato, and Epicures, the neo-classicism of St. Augustine and St. Thomas Aquinas, and the modernism of Mill, Kant, Freud, and Marx (Jones et al., 1969). Among the modernists, one will find the utilitarianism of Mill, the deontological viewpoint of Kant, the psychoanalytic view of Freud, and the economics based philosophy of Marx. All these modernists, especially Mill and Kant, have left their marks on business ethics (DeGeorge, 1986).

The ethical theories that are widely used in business are deontology, utilitarianism, relativism, justice, and rights (Beauchamp, 1983; Brady, 1989; Brady & Dunn, 1995; DeGeorge, 1986; Derry & Green, 1989; Robin and Reidenbach, 1989a; Velasquez, 1982; Weiss, 1994). The deontological approach focuses on duty, the basic moral category, which is independent of consequences. This type of reasoning suggests that there are "prima facie ideals" that can direct one's thinking. Much of the reasoning that underlies modern deontology can be attributed to Immanuel Kant (DeGeorge, 1986; Fensen & Wygant, 1990; Takala & Uusitalo, 1995).

Utilitarianism states that the rightness and wrongness of an action depend on the consequences of the action; the ideal of utilitarianism can be summarized as the greatest good for the greatest number (Robin & Reidenbach, 1989). The primary method of assessing the greatest good for the greatest number is by performing a social/cost benefit analysis. Maximum benefits and maximum costs of a particular act are
considered and summarized as the net of all benefits minus all costs. "If the net is positive, the act is morally acceptable; if it is negative, the act is not morally acceptable" (Takala & Uusitalo, 1995, p. 895). Utilitarianism seems to have been easily accepted by business, in part because of its tradition in economics. The heritage of utilitarian concepts in capitalism can be traced back to Adam Smith (1776) and since then, much of the ensuing economic philosophy provided a rich tradition for utilitarianism (DeGeorge, 1986).

Robin and Reidenbach (1989a) suggest that there is a way to compromise between deontology, which has the individual as its major concern, and utilitarianism, which has society as its major concern. They recommend that in capitalistic democracies, those business activities that have a foreseeable and potentially serious impact on individuals should be regulated by the values of deontological reasoning and for all the other business activities, the arguments of utilitarianism should be considered appropriate.

Theory of ethical relativism states that ethics depends upon the situation. Its basis is moral relativism which holds that morality is relative to some personal, ethical or cultural standard (Johnson, 1985). The main viewpoints of this theory are: (a) the determination of right or wrong is relative to the person making the decision to take a certain
action; and (b) there is no method of deciding whether one
decision is better than the other from a moral viewpoint.
Theories of rights hold that an individual has certain
rights that have to be respected at all times. These
include rights to life and safety, truthfulness in
communication, privacy in personal life, freedom of
conscience, freedom of speech, and private property
(Fritzsche, 1990). Since an individual is entitled to these
rights, others have a moral obligation and duty to make sure
that these rights have been granted to him/her. Theories of
justice hold that all individuals should be treated with
equity, fairness, and impartiality; individuals should
receive fair treatment, fair administration of rules, fair
compensation, and due process (Fritzsche, 1990).

Now that the theories that underlie the study of ethics
in business have been presented, it is time to explore the
present literature on ethics. The literature on business
ethics can be divided into two broad categories: moral
reasoning literature and the social responsibility
literature.

Business Ethics: Defining the Parameters

The literature concerning corporate morality can be
broadly classified into two groups: the "business ethics
group" (e.g., DeGeorge, 1987; Robin & Reidenbach, 1987,
1989a, 1990) and the "social responsibility group" (e.g., Carroll, 1975, 1979; Wartick & Cochran, 1985). The former group places emphasis on "values" and the latter on "social contract" (Robin & Reidenbach, 1989a). The studies that emphasize values focus on the individual and look at moral reasoning; the research studies that emphasize social responsibility examine the nature of the social contract between corporations and society (Moser, 1988). Since this research deals primarily with moral reasoning, literature from the first field will be discussed here.

**Moral Reasoning Research**

The unit of analysis of the "moral reasoning research" is the individual. Moral reasoning can be defined as the process by which individuals deal with moral conflicts (Blasi, 1980; Duska & Whalen, 1975; Trevino, 1992; Rest, 1979, 1986; Weber, 1990b). The main contributors to this field are researchers from the fields of social, developmental, and cognitive psychology. This section is divided into three parts: the classics in moral development research, other theories and theorists, and the comprehensive models of ethical decision making in organizations. The classics provide the necessary theoretical foundation to the new conceptual and empirical advancements in moral reasoning, and the comprehensive
models of managerial ethics provide meaning and background to the literature presented in Chapter II.

The Classics in Moral Development Research

The three theories of moral development—the structural developmental view, the social learning view, and the psychoanalytic view—offer "a conceptualization of what morality is, as well as its origin, consistency and representation in the individual" (Windmiller, 1980; p. 2). All of these theories are pertinent to this research since each of them provides the theoretical foundation for the different variables used in this study.

The structural developmental theory (e.g., Kohlberg, 1958, 1969, 1981; Piaget, 1932) of morality is crucial to the understanding of one of the moderating variables used in the study, the level of moral development (CMD). The social learning theory (e.g., Bandura, 1971, 1986; Sieber, 1980; Windmiller, 1980), which posits that individuals learn vicariously from others, forms the theoretical argument that is made in this research that the "implicit forms of institutionalization" such as ethical leadership and corporate culture are even more important than explicit forms such as codes of ethics and ethics newsletters. The psychoanalytic view (e.g., Freud 1932; Tice, 1980) is important because the concept that underlies codes of ethics
and such means of behavior modification is that human behavior can be modified by various interventions.

Piaget and Kohlberg are the classics in the structural developmental theory of morality. Both of them believed that moral judgment develops through a series of cognitive reorganizations called stages, and each of those stages has an "identifiable shape, pattern, and organization" (Duska & Whalen, 1975).

Piaget (1932), in his study of children's rule-following behavior, proposed that a child progresses through four stages of cognitive development. During the first stage, the child does not feel any moral obligation; instead of following moral rules, the child invents his/her own rules. As Piaget has written, "the feeling of obligation appears only when the child accepts a command emanating from someone whom he respects" (Piaget, 1932; p. 53).

The second stage is heteronomous morality where the child's moral judgment is influenced by his/her respect for the commands of a superior. In this stage, the child confuses morality with adult constraint and regards rules as handed down from above. In the third stage, autonomous morality begins to emerge. Here, the "child regards rules as human-made and changeable, agreements between equals rather than alternative commands handed down from adults" (Damon, 1980; p. 40). In this stage, social reciprocity and mutual respect become the rationale for obeying moral rules.
The fourth stage is that of ideological moral reasoning where the child develops second-order reasoning abilities and can deal with complex socio-political issues (Damon, 1980). Piaget’s moral development theory greatly influenced Kohlberg (1958, 1969, 1981, 1984) who later elaborated upon the model.

Lawrence Kohlberg’s (1958, 1969, 1976, 1980, 1981, 1984) model of moral reasoning development is considered to be the other pioneering work in this field. His model of cognitive moral development offers a useful method for studying individual thought processes regarding ethical dilemmas. His theory suggests that moral reasoning develops in stages that represent progressively different and sophisticated concepts of justice. He categorized the six stages of moral development into three levels: pre-conventional, conventional, and post-conventional. (The following discussion is based on Kohlberg, 1980 and Williamson, 1990). A detailed description of Kohlberg’s model is warranted since this research uses his variable—cognitive moral development—as one of the moderating variables.

At the pre-conventional level, individuals are responsive to labels of right and wrong, but interpret these labels in terms of the consequences of the action or the power of the authority figure who espouses the rules. The first stage has a punishment and obedience orientation. For
an individual in this stage, it is the physical consequences of the action that determine its goodness or badness, not respect for any moral order which underlies the action. The second stage has an instrumental relativist orientation; people who belong to this stage do the right thing mostly to satisfy their own needs. They tend to interpret human relations in a pragmatic way, not in terms of justice and values, and expect reciprocity from others.

At the second or conventional level of moral reasoning development, individuals try to conform to the norms of the group regardless of the consequences of their actions, because they perceive that maintaining the expectations of their family and friends has merit in itself. This level also has two stages: interpersonal concordance or good boy-nice girl orientation and law and order orientation. Individuals belonging to the third stage, the good boy-nice girl stage, try to please others and win their approval by their good behavior. They try to confirm to the stereotypical impressions of "natural" behavior. Individuals belonging to the fourth stage, the stage of law and order orientation, have an orientation toward "authority, fixed rules, and maintenance of social order" (Kohlberg, 1980, p. 92). They do the right thing because of their sense of duty, respect for authority, and belief in the given social order.
The last level, which also has two stages, is the post-conventional, autonomous, or principled level. At this level, individuals are able to separate moral principles from authority figures and their own association with these figures. They evaluate the moral principles and accept them for their validity and application. Individuals at stage five have a social contract legalistic orientation. They define right actions in terms of general individual rights and standards of society. They realize that personal values can be relative and depend upon procedural rules for reaching consensus. Stage six has a universal ethical-principle orientation, and rightness is defined by ethical principles that are logically comprehensive, universal, and consistent. Individuals belonging to this stage act upon personal ethical principles like justice, dignity, equality, and respect for the dignity of other human beings.

Based on this classification scheme, Kohlberg developed a method of assessing people's moral reasoning (Williamson, 1990). He developed hypothetical scenarios incorporating ethical dilemmas and asked subjects to respond. Based on the responses, Kohlberg placed individuals in one of the six stages of moral development. Kohlberg's model became immensely popular, and formed the basis of moral reasoning measures developed by researchers like Rest (1979).

The social learning theory, which is found in the Empiricism of John Locke and the American Behaviorism of
John Watson (Windmiller, 1980), provides the conceptual framework of the research on the socialization of morality (Sieber, 1980). This theory employs the basic concepts of learning theory such as operant and classical conditioning, negative and positive reinforcement, punishment, extinction, and vicarious reinforcement. The social learning theory, as an approach to morality, explains how people acquire particular tendencies and orchestrate those tendencies into a "somewhat consistent approach to moral dilemmas" (Sieber, 1980; p. 130). Researchers have shown that consistency of moral behavior is difficult to prove, and has, to a certain degree, been observed only in contrived research settings (Sieber, 1980).

It is in this context that social learning theory helps to explain that "consistency of moral behavior must be sought within the framework of the individual's values, behavioral repertoire, and understanding of the particular moral context" (Sieber, 1980; p. 131). Moral behavior, which is socially learned, is initiated through teaching, learning, modeling, and imitation, and maintained through positive reinforcement. People internalize these behaviors, and over a period of time, the moral behaviors become a part of the people (Windmiller, 1980).

The psychoanalytic method, created by Freud (1932), has contributed significantly to the knowledge base of moral development (Tice, 1980). Similar to that of the
structural-developmental approach of moral development, the psychoanalytic method also envisions people passing through different moral and developmental stages as they grow older. In each of these stages, people have to reach certain critical developmental tasks that are known as the turning points. Like the progression principle in Maslow's hierarchy of needs, one can progress on to the higher level turning point only if he/she has achieved the basic developmental tasks of the preceding stage (Tice, 1980).

According to the psychoanalytic stages of moral development, the four stages are primary morality, middle childhood morality, adolescent morality, and early childhood morality. The turning points to the higher stages are structure of latency task achievement (from stage one to two), pubertal task achievement (from stage two to three), late adolescent task achievement (from stage three to four), and adult task achievement. After completing the fourth stage, people may enter later adult morality stage, which is characterized by the challenges of old age and death (Tice, 1980).

As Windmiller (1980) has noted, the psychoanalytic theory presents the hypothesis that human beings are driven by irrational impulses that must be controlled through social prohibitions. According to this theory, it is important that "agents of social control intervene at a very early stage to introduce necessary constraint and behavior"
(p. 5). The importance of psychoanalytic theory is that it ties the theory of moral development to the theory of personality development "wherein the forces operating to form the personality of the individual also form the mechanism of moral constraint by which the personality is partially maintained" (Windmiller, 1980; p. 6).

Other Theories and Theorists

Perry (1968) also proposed a theoretical framework of moral development. After studying Harvard students, he noted that there are three stages of intellectual and moral development. The most elementary developmental position involved a thinking pattern wherein right answers are sought from authorities, such as teachers and books. Perry characterized this phase as a dualistic, right-or-wrong framework, with almost complete reliance on authority (Harris & Brown, 1990). The second stage is that of ethical relativism, wherein a person perceives all ethical positions as equally valid. The third stage is that of personal commitment, which is characterized by a person’s ability to process possibly contradictory information from a variety of sources, to weigh this information according to his/her own sets of intellectual and ethical standards, and to reach conclusions that are consistent with his/her personal values (Harris & Brown, 1990).
Carol Gilligan (1977, 1982) challenged Kohlberg's model of moral development on the ground that the model was inherently biased against women. She pointed out that the longitudinal sample that had given Kohlberg his critical data was entirely male (Colby & Damon, 1983). So, according to Gilligan, Kohlberg's argument that morality was defined by "justice, fairness, and universal rights" is not appropriate in all situations. Gilligan (1982) found that women view morality based on "care, responsibility to others, and on the continuity of interdependent relationship," whereas men view morality in terms of "justice and rights." This different orientation required different reasoning and ways of resolving moral conflict situations. Colby and Damon (1983) noted that Gilligan attacked Fraad, Piaget, and Kohlberg and their developmental theories for defining morality as justice. Gilligan's research has also been questioned by critics as being biased toward women, since she based her conclusions on a study of only women (Cortese, 1990; Kerber, Greeno, Maccoby, Luria, Stack, & Gilligan, 1986; Walker, 1984).

Rest (1979) developed the Defining Issues Test (DIT) based on Kohlberg's theory. His aim was to develop a practical, valid measure of moral judgment so that the major claims of the cognitive developmental theory could be easily substantiated. The DIT is the most widely used measure of moral reasoning (Elm & Weber, 1994). It employs six moral
dilemma scenarios; after each scenario, there are descriptions of a particular action that can be taken (Williamson, 1990). The subjects are asked to choose one of these actions as a resolution to the story's dilemma, and are offered 12 possible reasons for each scenario in order to justify the chosen action. The subjects rate the relative importance of each of these reasons, and then rank the four most important of the 12 reasons. These 12 statements represent Rest's interpretation of the relevant factors at various stages of Kohlberg's moral reasoning model. The DIT's primary measure, the "P score" (for "principled moral reasoning"), identifies the degree to which a person uses Kohlberg's higher levels of moral reasoning (stages five and six) in justifying ethical decisions (Elm & Weber, 1994; Williamson, 1990).

Researchers point out that Rest's theoretical approach slightly differs from Kohlberg's (McCrae, 1985; Schlaefli, Rest, & Thoma, 1985; Thoma, 1986; Williamson, 1990). Kohlberg sees a person as occupying a certain primary moral reasoning stage while in transition from a lower stage to a higher one. In contrast, Rest believes that an individual reasons from several stages at the same time, even though he/she predominantly reasons from one stage (McCrea, 1985, Williamson, 1990). Rest (1979) admits that Kohlberg's scheme has a more elaborate architectural structure and is a far more ambitious undertaking than his.
Belenky, Clinchy, Goldborger, & Tarule’s (1986) research on women’s knowledge development is another noteworthy study that follows the tradition of Piaget and Kohlberg (Harris & Brown, 1990). They theorize that women go through several stages in their cognitive development. The basic developmental stage is "silence" where women experience mindlessness and submit completely to external authority. In the next stage, the received knowledge stage, women are able to receive knowledge though they do not have the ability to produce it. The procedural stage is next, where women are able to apply externally received procedures to obtain and communicate knowledge. From the procedural stage women progress to a stage where they develop an understanding of the viewpoints of others. The constructed knowledge is the last and the most sophisticated stage where women are able to integrate knowledge learned from others and their own self (Harris & Brown, 1990).

Harris and Brown (1990) reviewed the three models of ethical growth—Perry’s intellectual and ethical development scheme, Kohlberg’s scheme of moral reasoning, and Belenky et al.’s study of women’s cognitive development—and suggested that these three are mutually supportive and complementary. Sridhur and Camburn (1993) have extended Kohlberg’s model to organizational moral development. By examining organizational responses in times of ethical crises,
they argued that organizations also progress through different stages of moral reasoning.

In summary, all the three theories of morality--structural-developmental, social learning, and psychoanalytic--have great implications for this research. Each of the three theories substantiates the various variables and hypotheses used in this study. Table 1 summarizes this section by synthesizing the various theories and theorists of moral development and depicting the relevance of these theories to this research effort.

Many business ethics researchers have elaborated upon the themes presented by the classics and have applied it to ethical decision making situations in organizations. The next section presents the comprehensive models of ethical decision making of managers.

**Managers and Moral Reasoning**


Ferrell and Gresham (1985), in their contingency framework, theorize that an ethical dilemma emerges from the socio-cultural environment of the decision maker. Individual factors such as knowledge, attitudes, and intentions and organizational factors such as the influence of significant others, the presence of ethical codes, and the structure of rewards/punishment act as the contingent factors that affect the decision making process. After behaving ethically or unethically, decision makers evaluate
the outcome of their actions and make necessary changes in
the future. This model is an illustration of the social
learning theory of moral development that was discussed
earlier.

Hunt and Vitell (1986) proposed a general theory of
marketing ethics that postulated that individuals' ethical
judgment is a function of both deontological and
teleological orientations. They theorize that after being
aware of an ethical problem, individuals perceive different
alternatives in dealing with the problem and weigh the
consequences of those alternatives. Personal
characteristics and cultural, industry, and organizational
environments affect the awareness of the ethical problem and
the evaluation of alternatives and consequences.
Individuals use deontological norms to evaluate the
rightness and wrongness of each alternative, and
teleological norms to judge the probability and desirability
of the consequences of each alternative and how the
alternatives might affect important stakeholders.

As a result of this evaluation, individuals arrive at
an ethical judgment and then establish an intent to act in a
certain manner. The final step of the process is the action
or the ethical/unethical behavior itself. Thus, intentions
mediate the relationship between moral judgment and
behavior. Individuals take note of the consequences of
their behavior and these consequences later become part of their frame of reference for future actions.

Ferrell et al. (1989) combined Ferrell and Gresham's (1985) and Hunt and Vitell's (1986) models of moral reasoning of managers and Fishbein and Ajzen's (1975) theory of reasoned action to develop an integrated model of ethical decision making in business. This model, like the other decision making models, follows a problem recognition, search, evaluation, choice, and outcome mode. The recognition of an ethical issue is affected by social learning and cognitive moral development. The first stage, moral development, directly influences how individuals deal with the problem; some may exhibit selfish and greedy behavior associated with a pre-conventional level of development while others show a principled behavior.

The next stage is moral evaluation, where individuals use ethical philosophies, such as deontology and teleology, in their decision making process. After the evaluation stage comes the determination stage where intentionality to behave in a certain manner is established. Here the authors use Fishbein & Ajzen's (1975) argument that intentionality is the immediate determinant of behavior. Organizational culture, opportunity, and individual characteristics moderate the above mentioned four stages of the decision making process. From intentionality comes behavior and then the consequences of that behavior. Individuals evaluate the
consequences of their behavior carefully and modify their behavior in the future.

Trevino (1986) proposed that ethical and unethical decision making can be viewed as a process in which both individual and organizational characteristics play important roles. She posited that individuals react differently to moral dilemmas depending upon the stage of their cognitive moral development. Individual characteristics such as locus of control, ego strength, and field dependence act as moderators in the decision making process; but these are not the only moderators. Organizational moderators in Trevino’s model include immediate job context and work characteristics. The greatest strength of her argument is her realization that the overall corporate culture interacts with personal and job-related factors to determine the final outcome of ethical decision making in organizations.

Bommer et al.’s (1987) behavioral model of ethical decision making is one of the most comprehensive models in business ethics that describe the various factors that have a possible influence on managers’ decision. The authors theorize that managers’ personal attributes and their perceptions of social, governmental/legal, personal, work and professional environments influence their decisions when confronted with a moral dilemma. It is depicted in the model that the individual decision making process mediates the relationship between these outside influences and
ethical/unethical behavior. The decision process in the model "functions as a central processing unit with its own internal characteristics such as the individual's cognitive style, type of information acquisition and processing, and perceived levels of loss and reward that influence the decision" (p. 267).

Jones (1991) proposed an "issue-contingent model" of ethical decision making by individuals in organizations. He found that none of the existing theoretical models of ethical decision making place an adequate emphasis on the characteristics of the ethical issue itself. In order to remedy this situation, he proposed a new model that contains a set of variables called "moral intensity"; these variables are theorized to influence moral decision making and behavior. The components of moral intensity are the magnitude of consequences, the social consensus, the probability of effect, the temporal immediacy, the proximity, and the concentration of the effect of the moral act. Jones argues that the issues of high moral intensity will be recognized more frequently and will elicit more sophisticated moral reasoning than issues of low moral intensity. This model deserves attention because it is the first decision making framework in business ethics that emphasized that the characteristics of the issue exert a significant influence on any decision making process.
Other comprehensive frameworks of managerial decision making include Whalen et al.'s (1991) attribution model and Knouse and Giacalone's (1992) categorical model. Whalen et al.'s ethical attribution model depicts the consumer's decision making process as being influenced by his/her personal predispositions, normative evaluation criteria, competitive marketplace elements and situational effects. Knouse and Giacalone posit that three categories of factors—individual, interpersonal, and organizational— influence ethical decision making in organizations.

Some researchers have offered structured theories to provide a practical application of moral reasoning theories to everyday organizational situations. Patrick et al. (1991) point out that the interaction between the personal and organizational levels of moral decision making is a major determinant of the quality of the ethical decision making. So, they proposed a new "structured ethical decision making format" that optimize ethical reasoning. The major components of their format are the ethical decision making context, analysis of the ethical problem at hand, evaluation of alternate ethical solutions, recommendation of an ethical decision, and implementation and control of the ethical decision. Along the same lines, Laczniaik & Murphy (1991) have offered a moral reasoning model that requires managers to proceed through a sequence of questions which test whether the contemplated action is
ethical. Vitell et al. (1993) also depict ethical decision making as a process that is influenced by a variety of factors.

In summary, all the theorists on managerial ethics (e.g., Bommer et al., 1987; Ferrell & Gresham, 1985; Ferrell et al., 1989; Hunt & Vitell, 1986; Jones, 1991; Knouse & Giacalone, 1992; Vitell et al., 1993; Whalen et al., 1991) posit that ethical decision making in organizations is a complex process that is influenced by various individual, organizational, and environmental factors. The personal characteristics that are hypothesized to affect ethical decision making include stage of cognitive moral development (Bommer et al., 1987; Trevino, 1986; Vitell et al., 1993), and locus of control (Bommer et al., 1987; Trevino, 1986, 1992, Vitell et al., 1993). The organizational factors that are theorized to influence decision making include culture (Bommer et al., 1987; Ferrell & Gresham, 1985; Ferrell et al., 1989; Trevino, 1986, 1987; Vitell et al., 1993), reward system (Bommer et al., 1987; Trevino, 1986, 1987), and referent groups (Bommer et al., 1987; Ferrell & Gresham, 1985, Ferrell et al., 1989; Trevino, 1986, 1987; Vitell et al., 1993). Table 2 summarizes the various comprehensive models of ethical decision making in organizations.

The theoretical foundation of this research is presented in the next section. All the ethical theories and
models examined so far are intended to provide a sufficient background for understanding this foundation.

Foundations of the Research

This research is based primarily on Vitell et al.'s (1993) article in the Journal of Business Ethics, "the Effects of Culture on Ethical Decision-Making: An Application of Hofstede's Typology." In their article, Vitell et al. conceptualize that the cultural dimensions of individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity affect individuals' ethical decision making.

Almost all the comprehensive models of ethical decision making that were examined earlier (e.g., Bommer et al., 1987; Hunt & Vitell, 1986, 1992; Vitell et al., 1993) show that national culture influences ethical decision making; but until Vitell et al. (1993) none of the researchers examined "how" culture might influence individuals' ethical decision making. Vitell et al. tried to base their propositions about the influence of culture on Hunt and Vitell's (1986) general theory of marketing ethics. In their general theory, Hunt and Vitell (1986) proposed that in an ethical decision making situation "cultural norms affect perceived ethical situations, perceived alternatives, perceived consequences, deontological norms, probabilities
Table 2
Comprehensive Models of Ethical Decision Making

<table>
<thead>
<tr>
<th>MODEL</th>
<th>AUTHOR(S)</th>
<th>FINDINGS</th>
</tr>
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<tbody>
<tr>
<td>Behavioral Model</td>
<td>Bommer et al.</td>
<td>Personal attributes, social, legal, work and professional environments influence ethical decisions.</td>
</tr>
<tr>
<td>Contingency Framework</td>
<td>Ferrell &amp; Gresham</td>
<td>Moral dilemma from the socio-cultural environment of the decision maker; individual and organizational factors as contingents</td>
</tr>
<tr>
<td>Synthesis Model</td>
<td>Ferrell et al.</td>
<td>Organizational culture, opportunity, and individual characteristics moderate the different stages of ethical decision making</td>
</tr>
<tr>
<td>General Theory</td>
<td>Hunt &amp; Vitell</td>
<td>Individual, organizational, and cultural environments affect the awareness and evaluation of ethical problems</td>
</tr>
<tr>
<td>Issue-contingent Model</td>
<td>Jones (1991)</td>
<td>Issue characteristics along with individual and organizational factors influence ethical decisions</td>
</tr>
<tr>
<td>Categorical Model</td>
<td>Knouse &amp; Giacalone</td>
<td>Individual, interpersonal, and organizational factors influence ethical decision making</td>
</tr>
<tr>
<td>Person-situation Interactionist Theory</td>
<td>Trevino (1986)</td>
<td>Ethical/unethical decision making as a process in which individual and organizational characteristics as moderators</td>
</tr>
<tr>
<td>Ethical Attribution Model</td>
<td>Whalen et al.</td>
<td>Personal predispositions, normative evaluation criteria, marketplace elements, and situational factors influence ethical decisions</td>
</tr>
</tbody>
</table>

of consequences, desirability of consequences, and importance of stakeholders" (p. 10).
Vitell et al. (1993) applied Hofstede's (1980, 1991) model of culture to ethical decision making to hypothesize that due to the differences in the cultural dimensions of power distance, individualism/collectivism, uncertainty avoidance, and masculinity/femininity, people from different countries perceive and react to ethical situations differently. In their article, Vitell et al. present different propositions that are ready to be tested and ask researchers to test those propositions. This call is answered by this research effort.

This research, though based on Vitell et al.'s research on the influence of culture on ethical decision making, differs from it in the following ways: (a) this research effort limits its scope to the institutionalization of ethics in business and how culture might affect people's perceptions regarding the different institutionalization methods; (b) this research does not measure behavior; it is a purely "perception study" that looks at people's perceptions of institutionalization; (c) this study introduces two variables—level of cognitive moral development and locus of control—which are hypothesized to moderate the relationship between cultural dimensions and people's attitudes regarding institutionalization; and most importantly, (d) this study is based on an important argument regarding the institutionalization of ethics—the theory of ethical fit—which looks at the implicit and
explicit ways of instilling values in organizations. Brenner's (1992) implicit-explicit distinction between the various institutionalization efforts in organizations provides the foundation for the institutionalization part of this study. Brenner opines that all organizations have ethics programs that have both explicit and implicit components; these programs exist whether management creates them or not. The explicit component includes codes of ethics, policy manuals, employee orientation programs, etc. The implicit component includes corporate culture, incentive systems, valued behaviors, and promotion policies. In his study, the position is taken that unless there is a fit or compatibility between the explicit and implicit components, institutionalization of ethics will be superficial at best. This position is tested in this study by asking managers their perceptions regarding the matter.

The theoretical framework of this study is the following: Hofstede's cultural dimensions act as the independent variables, affecting people's perceptions regarding the effectiveness of different institutionalization methods, the dependent variable. Individual variables of the level of cognitive moral development and locus of control are hypothesized to moderate the relationship between the independent and dependent variables.
More specifically, the basic research questions, as they relate to the hypotheses of the study, are the following: (1) how does the cultural dimension of individualism/collectivism influence managers' perceptions regarding the impact of codes of ethics in raising the ethical climate of organizations? (2) how does the cultural dimension of power distance influence managerial perceptions regarding the influence of referent groups? (3) how does the cultural dimension of uncertainty avoidance influence managerial perceptions regarding the formalization of ethics in organizations? (4) how does the cultural dimension of masculinity/femininity influence managerial perceptions of the effectiveness of implicit and explicit methods of institutionalizing ethics in organizations?, and (5) do the individual variables of locus of control and moral reasoning moderate the relationship between culture and managerial perceptions of institutionalization of ethics?

Definition of Terms

The following definitions of terms are crucial to the understanding and appreciation of this research. Terms related to culture, institutionalization of ethics, and moral reasoning are presented below.

**Culture**, unless otherwise specified, is used to differentiate between the countries of U.S. and India. It
is defined as the sum total of a country's past; what makes one country different from other countries.

Organizational culture is defined as an organization's past; the sum total of that organization's experiences.

Institutionalization of ethics is defined as the structures, systems and processes by which organizations instill ethical values in their employees. Institutionalization can be done implicitly or explicitly. The implicit ways of institutionalizing ethics include creating ethical corporate cultures, demonstrating ethical leadership, and redesigning reward and performance evaluation systems to reflect ethical considerations. The explicit ways of institutionalization include drafting codes of ethics, publishing ethics newsletters, creating positions for ethical supervision (e.g., ethics ombudsman), and offering ethics training.

Moral dilemma is defined as the state of mind of an individual in a decision making situation where he/she is pulled in two directions as to the rightness and wrongness of the decision, and thus, is experiencing difficulty in reaching a decision.

Moral reasoning is defined as the process by which individuals decide what is good or bad, right or wrong, just or unjust, fair or unfair when confronted with a moral dilemma. Ethical reasoning is another term that is

Stage of cognitive moral development is defined as the sophistication of thought used in moral reasoning to justify a decision. The conceptualization of the various stages used by individuals in moral reasoning is based on Kohlberg's theory (1958, 1969), which is in turn influenced by Piaget (1932). Kohlberg proposed that individuals can reason within three levels—pre-conventional, conventional, and post conventional—of moral reasoning, which are in turn divided into six stages.

Locus of Control (LC) refers to the degree to which individuals feel that they are in control of their destiny. A person with an external LC feels that he/she cannot control the situation, while a person with an internal LC feels exactly the opposite (Rotter, 1966).

Chapter Summary

This purpose of this research is to investigate the relationship between cultural dimensions and the perceptions of U.S. managers and Indian managers regarding the institutionalization of ethics in organizations. The propositions of this study are based on Vitell et al.'s (1993) research on the influence of culture on the ethical attitudes and behavior of people. Hofstede's (1980, 1991) cultural dimensions of power distance, individualism/
collectivism, uncertainty avoidance, and masculinity/femininity, Brenner's (1992) implicit-explicit methods of institutionalization of ethics, Kohlberg's (1958, 1981) theory of cognitive moral development, and Rotter's (1966) theory of locus of control provide the foundation for the various variables used in this study. The main ideas presented in this chapter are summarized in Table 3.

Preview of the Study

A synopsis of the proposed research is given in Chapter I. The existing literature in the fields related to the study is surveyed in Chapter II. The research methodology is presented in Chapter III. The results of the study are discussed in Chapter IV, and the study concludes with Chapter V, which features conclusions and future research directions.
Table 3
Summary of Chapter I

<table>
<thead>
<tr>
<th>PROBLEM STATEMENT</th>
<th>Lack of research regarding the effect of culture on the various methods of institutionalizing ethics in organizations</th>
</tr>
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<tbody>
<tr>
<td>PURPOSE</td>
<td>To investigate the effects of the cultural dimensions of power distance, individualism, uncertainty avoidance, and masculinity on U.S. and Indian managers' perceptions regarding the institutionalization of ethics as moderated by managers' level of cognitive moral development and locus of control</td>
</tr>
</tbody>
</table>
| SIGNIFICANCE AND JUSTIFICATION | * Path finding research on the effect of culture on the various methods of instilling values in organizations  
* Theory testing  
* Implications for corporations  
* Theory building  
  - Codes of ethics and structural changes (Organization Theory)  
  - Ethics as part of the overall strategy (Strategic Management)  
  - The influence of culture (International Management) |
| THEORETICAL UNDERPINNINGS | * Structural-developmental, social learning, and psychoanalytic theories of morality  
* Comprehensive models of managers' moral reasoning |
| SPECIFIC FRAMEWORK | * Vitell et al.'s (1993) hypotheses regarding culture and ethical attitudes and behavior  
* Theory of ethical fit  
* Hofstede's (1980, 1991) dimensions |
"Its (culture’s) influence for organizational behavior is that it operates at such a deep level that people are not aware of its influences. It results in unexamined patterns of thought that seem so natural that most theorists of social behavior fail to take them into account. As a result, many aspects of organizational theories produced in one culture may be inadequate in other cultures."

Triandis, 1983

The literature in the fields of culture and business ethics that is relevant to this research is reviewed in this chapter. The chapter is divided into four main sections. The independent, dependent, and moderating variables—culture, institutionalization of ethics, cognitive moral development, and locus of control—of this study are described in the first three sections; the research model is discussed in the last section. The first section is a presentation of the research pertaining to culture and how researchers in business ethics have looked at the influence of culture on people’s ethical decision making in organizations.

Culture

Adler (1983) remarked that the most pertinent issue in cross-cultural management research is the impact of culture on individual decision making and behavior in organizations.

All the comprehensive models of ethical decision making in organizations (e.g., Bommer et al., 1987; Ferrell and Gresham, 1985; Hunt and Vitell, 1986, 1992; Trevino, 1986) that are described in Chapter I accord "culture" an important place. According to Rest (1986), culture is the most significant variable that influences an individual's awareness of an ethical dilemma, and thus, is one of the key variables in any framework of ethical decision making. This section looks at culture, and is divided into two subsections; Hofstede's model of culture, one of the building blocks of this research, is presented in the first part, and then, cross-cultural and international research in business ethics is presented.
Hofstede’s Cultural Dimensions

Hofstede’s (1980, 1991) definition of culture is presented first in this research, since the research relies heavily on his model. According to Hofstede (1991), culture is "the collective programming of the mind which distinguishes the members of one group or category of people from the other" (p. 5). It is a learned trait, not inherited; it derives from people’s social environment. Hofstede maintains that culture is different from human nature and personality, and hence should be treated accordingly.

Hofstede (1991) gives credit to Inkeles and Levinson (1969), whose work on national culture was a precursor to his own, for their seminal work regarding culture. In their survey of the English language literature on national culture, Inkeles and Levinson suggested that individuals, groups, and societies have problems with the following issues: "(1) relation to authority; (2) conception of self, and in particular: (a) the relationship between the individual and society, and (b) the individual’s concept of masculinity and femininity; and (3) ways of dealing with conflicts, including the control of aggression and the expression of feelings" (p. 447).

Hofstede adopted these propositions on culture and tested them in his study, which was based on a survey of the employees of the International Business Machines (IBM)
Corporation. The original intention of the research was to study the attitudes of IBM employees regarding the various dimensions of their work. As Hofstede notices, "the database was unusually extensive covering employees in 72 national subsidiaries, 38 occupations, 20 languages, and two points in time - around 1968 and around 1972. Altogether, there were more than 116,000 questionnaires with over 100 standard questions each" (Hofstede, 1991, p. 251).

The standardized questionnaire had four dimensions: (a) satisfaction with work; (b) perception of an aspect or problem of work situation; (c) personal goals and beliefs; and (d) demographics. It is the factor analysis of the personal goals and beliefs data that provided valuable information regarding the dimensions of national cultures. A detailed description of Hofstede's data collection method, analysis, and evaluation can be found in his books, *Culture's Consequences: International Differences in Work Related Values* (1980), and *Cultures and Organizations: Software of the Mind* (1991).

A pattern of cultural differences emerged from Hofstede's analysis of the IBM data; he noticed that there are four different cultural dimensions—power distance, individualism/collectivism, masculinity/femininity, and uncertainty avoidance—which can be used to differentiate among cultures. This discovery inspired Hofstede's seminal work, *Culture's Consequences* (1980), which has spawned
several research efforts in the last 14 years (Ueno & Sekaran, 1992). Since these cultural dimensions are the predictor variables in this study, they are discussed below in detail.

Each of the four dimensions is viewed as a continuum; culture determines where a country falls on the continuum (Kelley, Whatley, & Worthley, 1987). In this research, after the presentation of each cultural dimension, it is indicated where India and United States of America (USA), the two countries under investigation, fall on the continuum.

The cultural dimension, power distance, describes the dependence relationship in a country. Power distance is defined as the degree to which the less powerful members of institutions and organizations within a country expect and accept the unequal distribution of power. In countries where power distance is high, the emotional distance between the bosses and the subordinates is quite high and subordinates depend considerably on their bosses. Subordinates in these countries are unlikely to approach their bosses with their problems or contradict the bosses. In countries where the power distance is low, subordinates approach their bosses with their problems, and are not afraid to contradict them; in these countries, there is considerable interdependence between subordinates and bosses. Researchers (Pareek, 1968; Kakar, 1971; Sinha,
1984) point out that subordinates will show greater
tolerance for the lack of autonomy in high power distance
cultures than in low distance cultures (Agarwal, 1993).

Hofstede (1980) derived at the power distance dimension
based on answers regarding three questions: (1) whether
employees were afraid to express disagreement with their
managers; (2) employees' perceptions regarding the decision
making style of their bosses; and (3) employees' preference
for their boss' decision making style. Based on the
answers, the employees from different countries were
categorized into different groups. Latin, African, and
Asian countries showed high power distance values, whereas
U.S., non-Latin European, and England showed low values. In
this category India is classified as a high power distance
country, whereas U.S. is classified as a low power distance
country.

The second cultural dimension is individualism/
collectivism. Individualism "pertains to societies in which
the ties between individuals are loose: everyone is expected
to look after himself or herself and his or her immediate
family. Collectivism, as its opposite, pertains to
societies in which people are integrated into strong,
cohesive groups, which throughout their lifetime continue to
protect them in exchange for unquestioning loyalty" (p. 51).
In order to derive the individualism index, people were
asked about their work goals. Individualistic countries
gave more importance to the work goals of personal time, freedom, and challenge, and less importance to training, physical conditions and use of skills. In other words, the goals that the individualistic cultures emphasized stress the independence of employees from the organization. The collectivist countries rated training, physical conditions, and use of skills as their most important work goals and gave lower ratings to personal time and freedom. In other words, the goals the collectivist cultures emphasized reveal the dependence of employees on the organizations.

In collectivist countries, collective interests prevail over individual interests, opinions are predetermined by groups, and laws and rights differ by groups. The members of such cultures are "we" rather than "I" oriented, have high organizational loyalty, are interdependent on one another, are cooperative, and subscribe to the values of joint efforts and group rewards. In individualist countries, the reverse is the case; members of individualistic cultures are self centered, are competitive rather than cooperative, have low organizational loyalty, tend to pursue their own goals, have a low dependency on the organization, and are calculative (Ueno and Sekaran, 1992). According to Hofstede's model, U.S. is an individualist country whereas India is a collectivist country.

The third cultural dimension is masculinity/femininity. Hofstede (1991) defines masculinity as the degree to which
gender roles are clearly distinct (i.e., men are supposed to be tough and assertive with an orientation toward material success, whereas women are supposed to be modest and tender with an orientation toward quality of life) in a given society. Masculinity/femininity scores are also based on work values. Masculine cultures prescribe separate roles for men and women and have a need to perform and show off, whereas feminine cultures encourage androgynous roles, and care for the quality of life and environment rather than money (Ueno and Sekaran, 1992). According to Hofstede's investigation, both U.S. and India are masculine countries.

Uncertainty avoidance is defined as the extent to which the members of a culture feel threatened by uncertain or unknown situations. Weak uncertainty avoidance cultures accept uncertainty as a normal feature of life, are comfortable in ambiguous situations, are tolerant of deviant and innovative ideas, and believe that there should not be more rules than are strictly necessary. In cultures where there is strong uncertainty avoidance, the opposite is true. Ueno (1991) and Ueno and Sekaran (1992) point out that members of high uncertainty avoidance cultures have a predisposition to engage in activities, such as long range planning and creation of protective structures, that will reduce future uncertainty. Both India and U.S. are weak uncertainty avoidance cultures.
Applications of Hofstede's Theory

Hofstede's cultural dimensions have been used extensively as explanatory variables in several different studies (Ueno and Sekaran, 1992). Examples of such studies are many and impossible to list; but a sample includes the following: (1) Agarwal's (1993) cross-cultural comparison of the influence of formalization on role stress, organizational commitment, and work alienation among U.S and Indian salespeople; (2) Smith's (1992) cross-cultural study of attitudes toward international harmonization efforts; (3) Ueno and Sekaran's (1992) investigation of the influence of culture on budget control practices in U.S and Japan; (4) Rodriguez's (1990) study of leadership styles in different countries; (5) Nicholson's (1989) investigation of the relationship between cultural values, work beliefs, and attitudes toward socioeconomic studies in America, the People's Republic of China, and Venezuela; and (6) Sekaran and Snodgrass's (1986) study of the influence of culture on networks and their configurations.

Hoppe (1990), in a survey of respondents from 17 Western European nations, USA, and Turkey, investigated the validity of Hofstede's research on the influence of culture on work-related values. The results supported Hofstede's four cultural dimensions. Ali (1988) investigated whether he could find support for Hofstede's cultural dimensions of power distance and uncertainty avoidance. He surveyed the
work-related attitudes of employees who work for seven 
organizations in three cultural settings and found that 
Hofstede's propositions regarding the two dimensions were 
supported. Neil (1989) and Proehl (1985) examined the 
attitudinal differences between Americans and Filipino-
Americans and found partial support for Hofstede's four 
different cultural dimensions. But, given the nature of the 
samples--immigrant Filipinos in the U.S.--it is not 
surprising that only partial support was found for 
Hofstede's work.

Researchers (Cohen, Pant, & Sharp, 1992; Dubinsky, 
Jolsen, Kotabe, & Lim, 1991; Nyaw & Ng, 1994; Vitell et al., 
1993) opine that Hofstede's cultural dimensions will be a 
valuable tool in cross-cultural studies of ethical decision 
making. Cohen et al. (1992), in their article regarding the 
implementation of international codes of professional 
ethics, point out that people's cultural and socioeconomic 
factors act as barriers in attempts to implement 
international codes. In their framework for evaluating the 
impact of cultural differences in ethical decision making, 
they used Hofstede's four cultural dimensions to illustrate 
how cultural differences make it difficult to implement 
American ethics codes for accountants in other countries.

Nyaw & Ng (1994) also recommended the use of 
Hofstede's cultural dimensions in any comparative analysis 
of ethical attitudes. Based on Hofstede's propositions
regarding the characteristics of the different cultures, they examined the ethical beliefs of students from Canada, Japan, Hong Kong, and Taiwan. They found that culture influenced the ethical attitudes of the respondents. Members from the collectivist countries--Japan, Hong Kong, and Taiwan--were more concerned with issues related to job security than were members from Canada, an individualistic country. Similarly, members from high power distance cultures--Japan and Taiwan--were more likely to accept the unethical practices of their superiors than were members from Canada, a low power distance culture. Japanese and Taiwanese, members of collectivist cultures, were more willing to engage in unethical behavior to outbid their competitors than were students from Canada and Hong Kong.

Vitell et al. (1993) also hypothesized that the cultural dimensions of individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity would influence people’s ethical attitudes and behaviors. According to them, members of collectivist cultures will be more likely to follow both the industry and organizational codes of ethics than members from individualistic countries. They also predicted that members from a low power distance culture would be more likely to take their ethical cues from their peers than members from a high power distance culture. Members from a high uncertainty avoidance culture are predicted to accept more formalization regarding the
institutionalization of ethics than members from a low uncertainty avoidance culture. Masculinity/femininity also influences people's ethical attitudes and behavior (Vitell et al., 1993).

In summary, Hofstede (1980, 1991) found that countries can be classified into different clusters based on the cultural dimensions of individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity. Many cross-cultural researchers (e.g., Agarwal, 1993; Ali, 1988; Dubinsky et al., 1991; Hoppe, 1990; Neil, 1989; Nyaw & Ng, 1994; Rodriguez, 1990; Sekaran and Snodgrass, 1986; Ueno & Sekaran, 1992) have tested Hofstede's model in several different countries. Researchers (Cohen et al., 1992; Dubinsky et al., 1991; Nyaw & Ng, 1994; Vitell et al., 1993) hypothesize that Hofstede's model can be used in cross cultural ethics research; there is empirical support (e.g., Dubinsky et al., 1991; Nyaw & Ng, 1994) for this hypothesis. Table 4 depicts where U.S. and India, the two countries under investigation, fall on the continuum of various cultural dimensions.

A review of cross-cultural and international research in business ethics is presented in the next section. Wherever appropriate, the results from cross-cultural studies are reexamined based on Hofstede's typology. This reexamination after the fact is not unusual in literature; for example, Cohen et al. (1992) is taking a similar
approach in their research on the cross-cultural transferability of U.S. accounting codes of ethics.

Table 4
The Cultural Dimensions of USA and India

<table>
<thead>
<tr>
<th>Country</th>
<th>Individualism</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Masculinity</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>INDIA</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>

Cross-cultural Research in Business Ethics

Literature that examines the influence of culture on ethical decision making can be classified into two types: cross-cultural and international. Cross-cultural research refers to studies that involve two or more countries, whereas international studies usually limit their scope to just one foreign country. The cross-cultural research on ethical decision making is presented in this part.

Cross-cultural research efforts that investigate the influence of culture on individuals can be of two types: convergent and divergent (Kelley et al., 1987). Researchers who believe in the convergent hypothesis posit that individuals, irrespective of culture, are forced to adopt industrial attitudes and behaviors so that they can survive in an industrialized society that is becoming highly homogeneous; this is the minority view. Many other pundits
believe in the divergent hypothesis that countries are different, irrespective of industrialization, because their cultures are different and these cultural differences continue to define the characteristics of the people in any particular culture (Kelley et al., 1987). The research on the influence of culture on ethical decision making can be categorized also along the convergent and divergent dimensions.

Only four research studies (e.g., Akaah, 1990; Lyonski and Gaidis, 1991; Preble and Raichel, 1988; Whipple and Swords, 1992) find support for the convergent hypothesis in cross-cultural ethics research. All the other researchers (e.g., Becker & Fritzche, 1987; Dubinsky et al., 1991; Robertson and Schlegelmilch, 1993; Tsalikis and Nwachukwu, 1991; White and Rhodebeck, 1992) found support for the divergent hypothesis. Literature supporting the convergent hypothesis will be examined first.

Akaah's (1990) and Preble and Reichel's (1988) studies confirmed the convergent hypothesis. Akaah's (1990) survey of the marketing professionals from Australia, Canada, Great Britain, and U.S. found that all the respondents had similar attitudes regarding marketing research ethics. In their cross-cultural study involving 150 U.S. and Israeli students, Preble and Reichel (1988) found that students from both countries shared similar attitudes regarding the various business philosophies such as social darwinism,
machievellianism, and ethical relativism. This enabled the authors to support the convergent hypothesis; they concluded that advances in communication, more frequent international travel, and rapid technology transfer have forced the world to become smaller and increasingly homogeneous.

Whipple and Swords (1992), in their examination of the ethical judgments of business students from U.S. and United Kingdom (U.K.), found that the differences in the respondents' cultural profiles did not have any bearing on their judgments; however, female students from both countries consistently showed higher ethical attitudes than male students. Lyonski and Gaidis (1991) arrived at the same conclusion after a study of the ethical attitudes of students from U.S., Denmark, and Australia. The authors also found that the students were more cynical about the ethics of their peers and managers; the majority of the students perceived that they were more ethical than their peers or managers.

Results of the studies that support the convergent hypothesis in business ethics should be interpreted with caution. As Akaah (1990) pointed out, before one can generalize the results of the convergent studies on business ethics and discount the effect of culture on managerial ethics, he/she should take similarities and differences among the cultures into consideration. An analysis of the sample from the convergent studies reveals that the all the
countries studied (e.g., U.S., U.K., Great Britain, Australia, and Canada), except Israel were western cultures that shared several similar characteristics such as capitalism, language, Christianity and heritage. The studies that support the divergent hypothesis are examined next.

Many researchers (e.g., Bartels, 1967; Becker and Fritzche, 1987; Cortese, 1990; Dubinsky et al., 1991; England, 1975; Khan and Atkinson, 1987; Laczniaick and Naor, 1985; McClelland, 1961; Prasad and Rao, 1982; Robertson and Schlegelmilch, 1993; Swinyard et al. 1990; Tsalikis and Nwachukwu, 1991; White and Rhodebeck, 1992) found culture to be a significant variable that influences people’s values, beliefs, and ethical behavior. Culture influences ethics by prescribing what is right or wrong in a given society (Bartels, 1967); hence, individuals from different cultures will have different norms and values (England, 1975; McClelland, 1961; Prasad and Rao, 1982). Due to cultural and ethical diversity, it is difficult to rely upon a single ethical standard for business across all countries (Laczniaick and Naor, 1985).

There are several empirical examples (e.g., Becker & Fritzche, 1987; Dubinsky et al., 1991; Nyaw & Ng, 1994; Robertson and Schlegelmilch, 1993; Tsalikis and Nwachukwu, 1991; White and Rhodebeck, 1992) that illustrate the influence of culture on ethical decision making and thus,
support the divergent hypothesis. Tsalikis and Nwachukwu (1991) sampled 265 American students and 194 Nigerian students regarding their attitudes toward bribery and extortion in international commerce and found significant differences between the two groups; Nigerians were more tolerant of bribery than Americans.

Dubinsky et al. (1991) found that salespeople in the U.S., Japan, and South Korea had different beliefs about the ethics of selling practices. White and Rhodebeck (1992) found that American and Taiwanese students differed in their perceptions of ethicality regarding issues such as misrepresentation, misuse of data, and goal conflict. The authors concluded that culture is a significant variable in ethics and pointed out the need for cross-cultural ethics training. In another cross-cultural study involving companies from U.S. and U.K., Robertson & Schlegelmilch (1993) found that U.S. companies relied more on their human resource and legal departments to communicate ethics policies than did the U.K. companies.

Another interesting cross-cultural study is Swinyard et al.'s (1990) comparison of American and Singaporean students regarding their attitudes toward software piracy. The questionnaire measured the respondents' knowledge of, attitudes toward, and behavioral intention toward software copyright laws. The results indicated that although Singaporean students were more knowledgeable about copyright
laws than American students, their attitudes were less supportive of these copyright laws. The behavioral intentions of Singaporeans were also in tune with their attitudes, in that they were significantly more inclined to make pirated copies of software than were the Americans.

The results also indicated that Singaporeans were more interested in the consequences of pirating software, and the benefits of pirated software for themselves, their family, and their community than were Americans who did not look at the consequences or benefits of pirating software, but only at the legality of the issue. It is easy to look at results such as these and say that Americans are more "ethical" than Singaporeans; but, given the context of these two cultures, the ethicality of the situation assumes special significance. The finding will make more sense if it is related to Hofstede's cultural dimension of individualism/collectivism (Cohen et al., 1992). Singapore is a collectivist country, so it is not surprising that Singaporeans were driven by the benefits of pirated software for their community than the Americans, who are highly individualistic.

Becker and Fritzsche's (1987) survey of French, German, and U.S. marketing managers regarding their attitudes toward industry codes of ethics and ethical business philosophy is the only existing research that resembles this study. The managers from the three countries were asked to agree or
disagree with seven statements regarding codes of ethics; the statements included issues related to the effectiveness of codes in raising the ethical awareness of the industry and the ease of administration of these codes. The results indicated that the French managers were more optimistic than the other groups regarding the effectiveness of codes of ethics and the ease with which codes could be administered.

The optimistic attitude of the French toward written codes of ethics is consistent with the characteristic of a high uncertainty avoidance culture in the Hofstede study. In a high uncertainty avoidance culture, rules and regulations are considered important since they help diminish the uncertainty and stress in an unfamiliar situation. Since France is a high uncertainty avoidance culture, it is only natural that the French have more faith in the effectiveness of written codes.

One of the questions in the survey asked whether managers thought that "people would violate the code of ethics whenever they thought they could get away with it." American managers expressed more agreement with this statement than did French or German managers. This finding also can be interpreted using the cultural dimension of individualism/collectivism. Individualistic cultures are less likely to adhere to the norms of the groups than collectivist cultures. So it is not surprising that American managers, who are from a more individualistic
culture, thought that people would violate rules more than did the French or German managers, who come from countries that are not as individualistic as the U.S.

Though this study provided significant insights into the perceptions of marketing managers from U.S., France, and Germany, the results should be interpreted with caution due to the sampling technique employed in the study. Respondents from U.S. and France were members of the marketing association in their respective countries, but respondents from Germany were subscribers to a German journal of marketing; this happened because of the authors' inability to obtain a list of German marketing managers.

Khan and Atkinson (1987), in their survey of Indian and British managers' attitudes regarding social responsibility issues, asked the respondents about the need for: (a) more legislation to implement morality; and (b) a written company code of ethics. The survey results indicated that both British and Indian managers shared many similar views on corporate social responsibility and had strong opinions regarding the legislation of morality. Most managers opposed more legislation and the use of company codes for promoting social responsibility.

In the context of Hofstede's cultural dimensions, these findings make sense. Both India and Britain are low uncertainty avoidance cultures, which mean that the people in these countries can tolerate uncertainty and hence do not
need many written rules and regulations to guide their behavior in unfamiliar situations. The need for written rules and regulations is a characteristic of high uncertainty avoidance cultures. The various international studies in business ethics are examined in the next part.

International Research in Business Ethics

Alam (1993) found that the accounting executives of New Zealand organizations were cynical about codes of ethics. The executives believed that even companies that had codes of ethics did not consider ethics to be a high priority item, and observed that companies did not consider ethical values in the performance evaluation of their employees. In other words, the executives felt that many companies paid lip service to ethics, without changing their existing systems. The respondents also pointed out that top management support and clearly communicated ethical standards are crucial in ensuring an ethical corporate environment.

Dolecheck and Dolecheck (1987) surveyed both business people and government personnel from Hong Kong and United States regarding their ethical attitudes. They found that managers from Hong Kong had a narrow definition of business ethics as compared to the managers from U.S.; Hong Kong managers defined ethics as operating within the law, whereas American managers defined ethics as going beyond the letter
of the law and obeying the spirit of the law. When asked whether a defective or unsafe product should be reported to outside authorities, 50 percent of the Hong Kong managers did not feel any obligation to do so, compared to 23 percent of the U.S. managers. This indicates that Hong Kong managers were more reluctant to blow the whistle than the American managers. Ninety-two percent of Hong Kong respondents, as opposed to 41 percent of American respondents, felt that sometimes they had to compromise their personal principles to conform to the norms of their organizations. The respondents also indicated that the behavior of their supervisors is the most influential factor that shaped their own behavior (McDonald and Zepp, 1988).

The results of this study could have been predicted by Hofstede's model of culture. According to Hofstede's (1980, 1991) model, Hong Kong is a collectivist country that has a large power distance, whereas U.S. is an individualistic country with a small power distance culture. So, it should not be surprising that Hong Kong managers were reluctant to blow the whistle and felt that they had to sacrifice their own principles in order to meet their organizations' expectations, whereas U.S. managers were more ready to engage in whistle-blowing and did not feel as much pressure to compromise their personal principles. As Hofstede indicates, members of a collectivist country always try to conform to the norms of their groups, and are more reluctant
to engage in behaviors that threaten the group's solidarity and security.

Zabid and Alsagoff (1993) examined the perceived ethical values of Malaysian managers. The questionnaire, which was sent to 290 managers, contained a list of 15 hypothetical unethical situations and the respondents were asked to rate the ethicality of those situations on a Likert scale. The results revealed that in 11 out of 15 cases managers perceived the action to be unethical, thus indicating that they had high ethical standards. It is interesting to observe that Malaysian managers perceived "calling in sick to take a day off, taking credit for other's work and padding one's expense account" to be highly unethical, whereas they perceived "gaining competitor information, irritation in advertising, and divulging confidential information" to be ethical. As the authors note, acceptance of some of the unethical practices may be due to the fact that these practices involve the survival of the business organizations or the continuation of the managers' personal relationship.

The findings of this study make sense when they are examined in the light of Hofstede's cultural dimension of individualism/collectivism. People from collectivist cultures identify themselves very strongly with the "groups" in which they are a part of and would act according to what benefits the group. Malaysia is a highly collectivist
country (Hofstede, 1991). So, looking at the results of this study from that angle, it should not be surprising that managers from a collectivist culture like Malaysia would perceive some unethical practices as ethical if these unethical acts benefit their businesses or help continue their relationship with others.

Another relevant finding was that the majority of the managers felt that the behavior of their immediate supervisor was the most significant factor that influenced their own ethical decision making. Hofstede's cultural dimension of power distance can be used to explain this finding also. Employees from high power distance countries look to their supervisors for guidance more so than employees from low power distance countries.

McDonald and Zepp (1988) examined the ethical perceptions of business managers in Hong Kong. Ninety-seven middle level managers, who were enrolled in the MBA program at the University of East Asia, were given questionnaires containing information regarding thirteen unethical situations. It is interesting to note that the results of this study were almost identical with those reported by Zabid and Alsagoff (1993) in their study of Malaysian managers. Hong Kong managers also perceived "taking credit for another's work, falsifying reports, and padding one's expense account" to be highly unethical, whereas they perceived "gaining of competitor information, deceptive
advertising practices, and obtaining trade secrets" as being ethical.

A closer look at the managerial perceptions would reveal that Hong Kong managers perceived unethical acts as unethical when those acts were committed against the company or their peers (e.g., padding the account, falsifying, etc.) and considered unethical acts as ethical when those acts were done for the perceived "good" of their company (e.g., gaining information about one's competition, obtaining trade secrets, etc.). This behavior is very much in accordance with the behaviors of people in collectivist countries, as described by Hofstede (1980).

Izraeli (1988) surveyed 97 Israeli managers regarding their ethical beliefs, perceptions of the ethics of their peers and top management, and predispositions to participate in networks to improve social responsibility. The results showed that the respondents rated themselves as having high ethical attitudes and intentions; they also believed that they are more ethical than their peers. Most of the managers also felt the need for networks to benefit societal causes and indicated that they would join these networks voluntarily. The author also reported that the best predictor of the managers' ethical behavior is their beliefs concerning the behavior of their peers. The results of the study indicated that the majority of managers modeled their behavior after the behavior of their peers, irrespective of
what top management says or the company ethics policies state.

This finding is also in agreement with what is known about the Israeli culture based on Hofstede’s (1980) work. In Israel, where the power distance between the employees and managers is relatively small, it is not unusual for people to base their behavior on the behavior of their peers, as opposed to a large power distance culture, where people rely upon their immediate supervisors for guidance regarding behavior. The research efforts on the ethics of Indian managers are examined in the next part.

**Ethics and Indian managers**

Though the issues of ethics and social responsibility have been gaining attention in India, there is a shortage of literature regarding the ethical attitudes and behavior of Indian managers. The research that has been found on the ethics of Indian managers is examined in this section.

The results of one of the earliest surveys on the ethics of Indian managers showed that even though most managers believed in good ethics and considered the ethical implications of their work decisions, the majority (73 percent) tended to ignore ethics in their daily work situations (Mohappa, 1977). Managers felt that company policy, unethical competition, and different rules and regulations prevented them from practicing ethics at work.
Practical realities and work related pressures often forced Indian managers to conform to the organizational norms even when these norms were at variance with their own personal code of ethics.

Examining this finding in the light of Hofstede’s typology reveals an interesting fact. It should not be surprising that Indian managers, members of a collectivist culture, felt that they were compelled to keep their personal code of ethics aside and make compromises at work to conform to organizational values.

Cyriac and Dharmaraj (1994) investigated machiavellianism in Indian management. There had been a widespread perception that Indian managers employed two sets of values - one for their personal and another for their professional lives; but this perception had not been empirically tested. So, the authors surveyed middle and senior level managers in four Indian locations—Madras, Bangalore, Calcutta, and Jamshedpur—to substantiate the hypothesis that a marked dichotomy existed in the value system of Indian managers. Results did not support the hypothesis, thus indicating that Indian managers do not have separate value systems for their personal and professional lives. Indian managers, to a certain degree, exhibited machiavellianism in their ethical attitudes and beliefs; but, this machiavellianism was tempered with concern for principles such as honesty and integrity. A factor analysis
of the terminal values of Indian managers showed that they placed a lot of emphasis on social conformism and personal attainment. Hofstede's cultural dimension of individualism/collectivism can be applied in this case also; it is just logical that Indian managers, members of a collectivist community, place greater emphasis on social conformism.

In summary, the preceding section of this chapter was a discussion of culture's effect on ethical decision making. Hofstede's (1980, 1991) model of cultural dimensions was presented in the first part of the section and cross-cultural and international research in business ethics was covered in the second part. Wherever appropriate, research findings on culture were reexamined based on Hofstede's cultural dimensions to see if the findings supported Hofstede's predictions regarding the particularities of different cultures.

The research on the institutionalization of ethics is presented in the next section. Both theoretical and empirical literature are examined to see how researchers have followed Corporate America in its endeavor to instill values in its employees.

Institutionalization of Ethics

Corporations are responding to ethical crises by institutionalizing morality through a variety of sources,
such as drafting ethics codes, establishing ethics committees, appointing chief ethical officers, and publishing newsletters (Austin, 1994; Badaracco & Webb, 1995; Center for Business Ethics, 1986; Gellerman, 1989; Murphy, 1989; Weiss, 1994). This is in part due to the tough federal sentencing guidelines that encourage organizations to maintain internal mechanisms for preventing, detecting, and reporting criminal conduct (Austin, 1994; Barney, Edwards, & Raylel, 1992). These various attempts at influencing individual moral choices are examined in this section of the research.

One of the central arguments of this study is based on Brenner’s (1992) distinction between explicit and implicit ethics programs. Brenner (1992) pointed out that all organizations, whether they know it or not, have ethics programs. Most often these programs are not often explicitly created, but are inherent in the cultures, systems, and processes of the organization. The explicit parts of any ethics program include codes of ethics, policy manuals, employee training materials, employee orientation programs, ethics committees, and ethics seminars. The implicit parts include corporate culture, incentive systems, leadership, promotion policies, and performance evaluation. The section on the institutionalization of ethics is based on the explicit/implicit differentiation of ethics programs.
Explicit Forms of Institutionalization

In business ethics literature, explicit forms of institutionalizing values such as codes of ethics and ethics training have received more attention than implicit forms of institutionalization. This partiality of researchers toward explicit forms may come from the observation of the practices prevalent in corporations.

More and more companies are trying to institutionalize ethics through codes of conduct, without changing their existing systems, structures, or policies. For example, the results of a survey done by the Center for Business Ethics at Bentley College found that many large corporations are trying to instill ethical values in their employees by having ethics committees and in-house training in ethics (Journal of Business Ethics, 1992); but at the same time, companies are not modifying their reward or performance evaluation systems to mirror this increasing importance of values (Alam, 1993). The various explicit methods of institutionalizing values are discussed in this section. The literature on codes of ethics is examined in the first part.

Codes of Ethics

Codes of ethics are the most popular form of instilling values in organizations (Gellerman, 1989; Murphy, 1989; Townley, 1992). Over 90 percent of Fortune 500 companies
have written codes of ethics (Journal of Business Ethics, 1992). As companies look very closely at their ethical underpinnings and try to find ways to provide a dialogue on ethical issues, codes of conduct have become their benchmarks (Gellerman, 1989; McDonald and Zepp, 1990; Sasseen, 1993; Townley, 1992). Vallance (1993) provided a rationale for the increasing popularity of ethics codes by stating that even though an articulated ethical position does not automatically guarantee business success, it does provide employees with a clear cut direction as to how they should react to various moral dilemmas and allows them to identify positively with the activities of the company.

Literature dealing with codes of ethics can be divided into two broad categories: theoretical (e.g., Frankel, 1989; Gellerman, 1989; Genfan, 1987; Murphy, 1989; O'Boyle and Dawson, 1992; Raiborn and Payne, 1990; Townley, 1992; Vallance, 1993; Weller, 1988) and empirical (e.g., Baumhart, 1961; Brenner and Molander, 1977; Callan, 1992; Laczniak and Inderrieden, 1987; Weeks and Nanthel, 1992). The theoretical literature on corporate codes of ethics can be subdivided into three types: content, process, and mixed. The content studies (e.g., Frankel, 1989; O'Boyle and Dawson, 1992; Townley, 1992; Weller, 1988) deal with what codes of ethics are, the process studies (e.g., Gellerman, 1989; Murphy, 1989) deal with how codes should be best enacted, and the mixed studies (e.g., Genfan, 1987; Raiborn
and Payne, 1990) deal with both content and process issues. The empirical literature on corporate codes is divided into three: survey research (e.g., Baumhart, 1961; Brenner and Molander, 1977; Callan, 1992; Weeks and Nanthel, 1992), analysis of existing codes (e.g., Cressey and Moore, 1983), and laboratory studies (e.g., Laczniak and Inderrieden, 1987).

Codes of ethics, often, go beyond existing laws and regulations (Weller, 1988) and can be divided into three types—aspirational, educational, and regulatory—depending upon their purpose (Frankel 1989; O’Boyle and Dawson 1992; Vinten, 1990). Aspirational codes are a set of ideals that has to be achieved; educational codes are tools to improve the understanding of situations and provide a means to address ethical problems; and regulatory codes are used to handle grievances. Codes of ethics are used in corporations to cover a wide range of behavior including the appropriate way to deal with the corporation’s internal and external stakeholders (Cressey and Moore, 1983; Genfan, 1987; Raiborn and Payne, 1990; Weller, 1988); for multinationals this means behavior in the home as well as host countries (Weller, 1988). In many companies, ethics has become a major concern for the chief executive officer and as more and more managers get involved with the formulation of codes of conduct, the codes have become increasingly sophisticated (Townley, 1992).
The two noteworthy process studies regarding codes of ethics are those by Gellerman (1989) and Murphy (1989). Gellerman (1989) maintains that corporate ethical codes have both salutary and unsalutary effects. Providing employee guidance and helping to lower incidence of misdeeds are the salutary effects of corporate codes; the unsalutary effect is that the codes of ethics can shift the blame for bad conduct from the corporation to the employees. A code of ethics is just the necessary first step in promoting ethical behavior. There are two other sets of complimentary measures that need to be taken along with the drafting codes of ethics, if ethics programs in organizations are to be successful.

Management should aim to reduce the inadvertent inducements of employee misconduct and deter misconduct by raising the risk of exposure. Often companies inadvertently offer inducements to employees to misbehave; for example, unusually high rewards for good performance, unusually severe punishments for poor performance, and implicit sanction of explicitly forbidden acts. As long as the implicit inducements exist, employees will be tempted to act unethically. Hence, one of the crucial steps in the implementation of any ethics program is making sure that corporate systems such as reward and performance evaluation are in tune with the corporations' stated ethical policies (Gellerman, 1989).
Murphy (1989) was very vocal when he stated that ethical business practices stem from ethical corporate cultures. He recommends that organizations should take a systematic approach in developing ethical cultures by emphasizing the importance of ethical considerations. He suggests three approaches to infuse ethical principles into businesses: (a) corporate credos that define values; (b) company wide ethics programs; and (c) ethical codes that provide guidance. Murphy maintains that simply developing corporate structures is not enough; corporations must tailor these structures to their functional areas or to their major line of business. An effective corporate code of ethics should take the different cultures and needs of the various functional areas into consideration; unfortunately, very few codes do this successfully.

Genfan (1987) and Raiborn and Payne (1990) address both content and process issues. Often corporate codes of ethics focus only on illegal acts; this is wrong, since this sends a wrong message to employees that legality and ethicality are the same. Raiborn and Payne (1990) distinguished between morality (spirit of the law) and legality (letter of the law) by pointing out that an issue's legality does not always reflect its morality. They opine that individuals who develop corporate codes of conduct should keep this in mind and look at the spirit rather than the letter of the law. Codes should address a wide variety of concerns.
including executive character and civic responsibility. In order for ethics codes to be effective, they should be clear, comprehensive, enforceable, and carefully drafted (Genfan, 1987; Raiborn and Payne, 1990). Top management must not only support the corporate code of ethics, but also enforce it; otherwise the code will not be effective (Alam, 1993; Raiborn and Payne, 1990).

Corporations should not make the mistake of mentioning ethics only in their ethics codes; instead, the language of ethics should appear in other basic documents such as job descriptions. Corporations also should stress the importance of values during employee selection, orientation, and development. In other words, concern for ethics should not be limited to drafting codes; it should permeate every aspect of the organizational life (Genfan, 1987).

Survey research has been popular with researchers who studied managerial perceptions regarding codes of ethics. In a survey of managers regarding the different aspects of business ethics, Baumhart (1961) found that the majority of managers perceived that a specific, enforced, written corporate code of ethics would provide guidance to employees. Fifteen years after Baumhart’s study, Brenner and Molander (1977) updated and expanded it to see if the "ethics of business" has changed during the intervening years. The majority of the respondents agreed that the existence of formal codes of ethics, both industry wide and
company wide, would improve ethical climate; but, there is an interesting difference in managers' attitudes toward codes of ethics. More managers were skeptical about the efficacy of codes of ethics in 1977 than they were in 1961, even though codes of ethics had become more prevalent among American corporations during the intervening years.

Callan (1992) did a survey of state employees regarding their ethical values and training needs. After examining the extent to which employees' ethical values differed because of their socio-demographic variables and job characteristics, he investigated how these differ according to their use of corporate codes of conduct. Though some demographic and job characteristic factors such as gender and level of management hierarchy were useful predictors of employees' ethical values and concerns, their awareness of and use of the organization's code of conduct generally proved to be poor predictors of their ethical values.

Laczniak and Inderrieden (1987) and Weeks and Nantel (1992) empirically examined the effectiveness of corporate codes in reducing unethical behavior. Laczniak and Inderrieden (1987) did an experiment to evaluate the influence of stated organizational concern for ethical conduct upon the behavior of managers. The authors found that even though, generally, codes of ethics alone did not have the desired effect on behavior, in certain situations they influenced respondent behavior. For example, codes
were able to influence managerial behavior in illegal situations, but not in legal, but unethical situations. Weeks and Nantel (1992), in their empirical case study that examined the relationship between corporate codes of ethics and sales force behavior found tentative support to the hypothesis that a well communicated code of ethics is related to ethical sales force behavior.

Weeks and Nanthel (1992) empirically tested the theory of writers such as Genfan (1987) and Raiborn and Payne (1990) that communication plays a vital role in the overall picture of the institutionalization of ethics. They pointed out that communication should be an integral part if codes of ethics are to be successful in corporations. They recommended that after developing a well thought-out code of ethics, it should be communicated to all employees. Employees should be given a chance to read the codes and clarify matters with their supervisors.

Analyses of the contents of corporate codes have always been popular with researchers (e.g., Brooks, 1989; Chatov, 1980; Cressey & Moore, 1983; Kaye, 1992; Lefebvre & Singh, 1992; Mathews, 1987; Sanderson & Warner, 1984; White & Montgomery 1980) who investigated codes of conduct (Stevens, 1994). Content analysis of corporate codes revealed that codes address a variety of topics such as conflict of interest, compliance with federal laws, political contributions, misuse of corporate assets, use of insider
information, and bribery (Chatov, 1980; Cressey & Moore, 1983; Langlois & Schlegelmich, 1990; Mathews, 1987; Sanderson & Warner, 1984). Researchers (Mathews, 1987; Sanderson & Warner, 1984) also found that the enforcement of corporate codes was weak since the majority of the companies did not follow code violations with reprisals such as fines, suspension, and demotions.

The content analysis of corporate codes often revealed startling findings. Cressey and Moore (1983), Sanderson and Warner (1984), and Mathews (1987) found support to the notion that corporate codes of ethics are often self-serving propaganda used by companies to further their own ends. After analyzing the contents of 119 corporate codes of ethics, Cressey and Moore (1983) found that the majority of the codes paid more attention to unethical activities—embezzlement and conflict of interest—that decrease a corporation’s profits than unethical activities—such as polluting the environment, maintaining safe working conditions, manufacturing and selling unsafe products, and abandoning a locale and its workers for a potentially profitable one—that increase profits.

In her analysis of the corporate codes of 202 Fortune 500 corporations, Mathews (1987) also found that codes mainly addressed illegal activities as opposed to unethical activities. Sanderson and Warner (1984) found the same results in their analysis of 39 corporate codes. Cressey
and Moore (1983) opined that the managerial attitudes and assumptions underlying the formulation of codes of ethics are that it is better to self-regulate than it is to obey the tougher external interventions that might follow if businesses do not shape up.

Even though corporate codes have been a popular tool of institutionalizing ethics, they have their limitations (Akers, 1988; Gibbons, 1992). Akers (1988) and Gibbons (1992) pointed out that corporate codes of ethics do not provide all the answers for the ethical woes of corporations. The institutionalization of ethics often gives a false sense of security to businesses. Corporations often forget that the teaching of ethics should go beyond institutionalization and create a sense of personal values in people that transcends institutionalized ethics (Gibbons, 1992).

The two comprehensive literature reviews--Ford and Richardson (1994) and Tsalikis and Fritzche (1989)--in business ethics support the hypothesis that companies that have ethics codes are more ethical than companies without such codes. After examining the different empirical studies that investigated the effectiveness of codes in promoting ethical behavior in organizations, Ford and Richardson (1994) concluded that the existence of corporate codes along with rewards and punishments for code adherence and
violations, would increase ethical behavior in organizations than does the mere existence of codes of conduct.

A few research studies show a negative relationship between codes of ethics and corporate ethical behavior. Mathews (1987) found that codes of ethics did not offer answers to people's moral dilemmas in organizations and a negative relationship existed between codes of conduct and organizational misconduct. Allen & Davis (1993) were also skeptical about the effectiveness of corporate codes. In their examination of the values of business consultants, they found a negative correlation between the values and consulting behavior of the respondents.

In summary, a code of ethics is one of the most popular vehicles of institutionalizing ethics in organizations (Gellerman, 1989; Murphy, 1989; Weiss, 1994). Most researchers (Austin, 1994; Gellerman, 1989; Townley, 1992; Vallance, 1993) agree that codes of ethics are the ways by which corporations try to combat the public perception of value erosion in corporate America. The effectiveness of ethics codes is a much debated issue where the majority of the researchers opine that these codes have a positive influence on employee behavior and the minority (Allen & Davis, 1993; Mathews, 1987) feel that codes have little or negative influence on employee behavior.

Studies (Allen & Davis, 1993, Mathews, 1987) that show such negative relationships are quite thought provoking in
that they force people to speculate about the effects of organizational variables that mediate or moderate the relationship between codes of ethics and people's behavior. These studies are important for this research because they reinforce the earlier contention that codes of ethics are just one piece of the puzzle, and other organizational variables such as culture, reward system, peer behavior, and supervisor pressure affect people's ethical decision making and behavior in organizations. This contention is proven by researchers such as Laczniak and Inderrieden (1987) and Murphy (1989) who found that codes affect ethical behavior in organizations only if the other systems, structures, and processes present also reinforce these codes.

The research studies on ethics training are presented in the next section. As Dean (1992) remarked, ethics training is an integral part of instilling values in organizations; even if companies adopt codes of conduct, they will not see a change in the ethical behavior of employees unless they follow up these codes with ethics training. A code of ethics will only heighten the awareness of employees regarding the various ethical issues; but, training is essential in order to teach employees how to use that code in practical situations.
Ethics Training

Training Magazine’s 1990 Industry Report indicates that ethics training is on the rise; in 1990, 36.9 percent of the companies with more than 100 employees offered some type of ethics training, as opposed to 26.6 percent in 1989 and 19.7 percent in 1988. In addition, the number of suppliers offering products or services related to ethics training climbed from five in the 1984-85 edition of Training Magazine’s Marketplace directory to 74 in the 1989-1990 edition (Thompson, 1990).

Ethics education is an application of the developmental theory of morality that was discussed in Chapter I. There have been conflicting opinions as to whether values can be taught or not; most of the studies support the view that ethics education helps value development. The basis of this view is Kohlberg’s (1976) theory that there is a universal and invariant sequence to moral development, entailing a progression through three levels of reasoning as the individual matures. Davis and Welton (1991) trace the historical perspective of ethics development and education to Kohlberg and Mayer (1972). Kohlberg and Mayer explained three ideologies that have been used to explain students’ moral and ethical development: maturationism, environmentalism, and interactionalism. They also identified the ethical assumptions of each ideology in their analysis.
Maturationism stresses that what is important in personal development comes from within each individual; educational environment should create a climate to allow the inner qualities to unfold and to permit the inner good to overcome the inner bad without cultural pressures to dictate right and wrong. Environmentalism stresses that the learning of moral knowledge and society's rules is an important factor in human development, and that the education process should direct its efforts to the instruction of such information and rules. Interactionalism suggests that people's cognitive and emotional make-up emerges naturally from interactions. After doing an extensive research of these ideologies, Kohlberg and Mayer (1972) concluded that only an aggressive approach using cognitive development theory could satisfactorily achieve the proper educational results.

Davis and Welton (1991) discussed the four approaches that have been developed for the teaching of ethics and moral education: moral development approach, value transmission approach, value clarification approach, and moral action approach. The moral development approach attempts to stimulate students to think about moral issues.

Value transmission approach attempts to teach students certain values that are considered desirable for society. Value clarification approach asks students to use rational thinking and emotional awareness to clarify personal values;
the students are then left alone to make their own decisions. The moral action approach allows values to be developed and internalized as a person moves beyond thinking and feeling to action.

It is important for ethics trainers to take note of the different approaches. The traditional approach of teaching ethics through introductory courses is not enough; a reexamination of existing curriculum and teaching methods needs to be done and based on the results, necessary changes need to be made (George, 1987, 1988; Stead and Miller, 1988). Ethics classrooms should be used as a consciousness raising tool for awareness training. A balanced mix of ethical theories and empirical case studies should be offered in the classes (Strong & Hoffman, 1990).

Weber (1990a) reviewed the four studies (Arlow and Ulrich, 1980; Boyd, 1981-1982; Martin, 1981-1982; Stead and Miller, 1988) that assessed the effectiveness of teaching courses in business ethics. Out of these four studies, three (all but Martin) showed that ethics courses have a positive, short-term effect upon students; but the generalizability of the findings is limited due to methodological problems.

Since it is established that ethics training has a positive overall effect on raising the ethical awareness of people, it is appropriate to examine the literature regarding ethics training in corporations. The Wharton
School of Business recommends that as soon as corporations establish codes of ethics, they need to set up ethics training program for their employees (Dean, 1992). Sometimes companies adopt a generic code of ethics that involves issues such as confidentiality, conflict of interest, and compliance with the law; but unless those companies invest money in ethics training to educate their employees regarding the generic codes, they will be wasting their money (Business Ethics, 1988). To sum it up, ethics training makes ethics codes real (Dean, 1992). Genfan (1987) advises corporations to engage in ethics training because it pays in several different ways, such as in customer satisfaction, public good will, employee pride, and monetary profits.

Survey method is popular in measuring the effectiveness of ethics training programs. Results of a survey of the alumni members of the Graduate School of Business at Columbia University showed that ethics training in companies had a positive effect on the actions of people when they are faced with ethical dilemmas (Delaney and Sockell, 1992). Studies also reveal that ethics training seems to be more popular in certain industries than in others. A survey done by the Ethics Resource Center in Washington (1988) indicates that ethics training is very common among defense contractors and is least common in retail and wholesale industries. Callan (1992) asked state employees about their
ethical values and training needs. Results showed that the major areas of training are in the general areas of public comment, conflict of interest, personal conduct, use of influence to gain advantage, use of official information, and responsibilities to those in authority.

Ethics trainers have always grappled with the question of the appropriateness of various methods of teaching ethics. Dean (1992) recommended utilizing the Critical Incident Technique, a strategy developed in the Air Force during World War II, in addition to case studies for ethics training. The Critical Training Incident, which requires people to identify essential job competencies, is consisted of a set of procedures that is used to observe human behavior in order to facilitate the development of broad based psychological principles; these principles are later used to solve practical problems (Flanagan, 1954). The case study approach, which is an extremely popular ethics training method, presents participants with predetermined scenarios and asks them to participate in decision making based on the scenarios.

Thompson (1990) argues that regardless of the format used in ethics training, it is important that the training: (a) is well focused; (b) facilitates, rather than teaches; (c) offers multiple options to discuss ethical problems; and (d) has top management support. It is also important that
ethics training should simulate dilemmas in the work place and encourage discussion among participants.

In summary, ethics training is a valuable tool that is used to raise the ethical consciousness of employees in organizations (Bassiry, 1990; Callan, 1992; Dean, 1992; Delaney & Sockell, 1992; Thompson, 1990). Corporations should reinforce their codes of conduct with ethics training so that employees can see how the generality of codes can be used in specific, day-to-day work situations (Dean, 1992; Genfan, 1987). Other structural devices used to institutionalize ethics are discussed in the next section.

**Other Explicit Forms**

Codes of ethics and ethics training, however popular, are not the only methods companies use to institutionalize ethics. The other structural devices used to instill ethical values include ethics committees, ethics ombudsmen, ethics hotlines (ethics 1-800-numbers), and ethics newsletters. Since most of the literature on the institutionalization of ethics deal with codes of conduct and ethics training, there is only limited research on the other structural devices used to institutionalize ethics.

Some companies create specific positions and departments to oversee the ethical functioning of their organizations (Austin, 1994; Finch et al., 1994; Weiss, 1994). Austin (1994) attributes the rise in the number of
ethics offices in large corporations to strict federal sentencing guidelines that became effective on November 1, 1991. Corporations like Texas Instruments (TI) and General Dynamics (GD) have both ethics committees and ethics ombudsman. For example, TI has a four-person ethics office in the Dallas headquarters (Finch et al., 1994). Other corporations such as General Electric and General Mills have ethics/public responsibility committees (Weiss, 1994).

In order to supervise the institutionalization process, Purcell (1977) advocated the use of ethics committees and identified the functions of such committees. The principal function of the ethics committee is to identify generic questions of an ethical nature that should be asked along with the usual questions functional departments might ask about various business activities. The ethics committee must know the rights of the individuals as well as the rights of the organization, and must be able to decide how any given decision might affect these rights. One of the most challenging tasks of the ethics committees is to keep the various ethical questions generic enough to address a wide variety of issues, and yet, practical enough for special guidance (Purcell, 1977).

Another important theme that came up time and again during the course of this research is the importance of communication in institutionalization efforts (e.g., Genfan, 1987; Pettit, Vaught, & Pulley, 1990; Weeks & Nantel, 1992).
It is a vital ingredient in the success of any institutionalization effort, and communication based on the corporate code of ethics shortens the duration of an organization's adoption of an integrated value system (Gibbs, 1993).

Corporations are also trying to facilitate communication regarding ethical matters by setting up internal disclosure policies and procedures (IDPP) (Barnett, Cochran, and Taylor, 1993). As legal, ethical, and practical considerations force organizations to encourage employees to reveal information on suspected illegal/unethical activities, the relevance of these IDPPs increases. IDPPs encourage employees to report unethical/illegal activities that take place in their organizations. In a survey of 295 human resource executives, it was found that companies with IDPP reported a larger number of internal disclosures by their employees than did other companies; it was also reported that there was a decrease in the number of external disclosures after the implementation of IDPPs (Barnett, Cochran, & Taylor, 1993).

There are differences in opinion regarding the immediate after-effects of implementing ethics programs. McGarvey (1993) pointed out that in the immediate aftermath of launching an ethics program, some companies see a drop in profits as employees and organizations clean up their acts.
But in the long run, ethics programs help companies keep out of trouble. Brooks (1992) maintain that there is a positive relationship between ethics and profitability; corporations are recognizing this relationship and are trying to instill values by codes and various structural devices. But in order for conduct codes to be effective, corporations need to develop specific measures to monitor, evaluate, and control the compliance with these codes.

The following statement summarizes the research on the explicit methods of institutionalizing ethics: none of the explicit methods, by itself, helps foster ethical values in organizations (Laczniak & Inderrieden, 1987; Weiss, 1994); adoption of codes of conduct should be followed by training (Dean, 1992; Genfan, 1987), and training should be followed by open communication channels, and above all, the explicit forms of institutionalization should complement the culture, leadership, and systems of the organization (Brenner, 1992; Gellerman, 1989; Murphy, 1989; Raiborn & Payne, 1990). As O’Boyle and Dawson (1992), after analyzing the code of ethics of the American Marketing Association (AMA), pointed out, the code by itself is too abstract to influence people’s decision making in moral dilemmas. Companies need to help the employees by offering corporate code of ethics, ethics training, ethics committees, and other institutional structures, and these structures should derive their meaning from the culture.
The implicit methods of instilling ethical values are discussed in the next section. These methods include organizational culture, leadership, peer behavior, and reward systems.

Implicit Means of Institutionalization

Two theories—social learning and differential association—emphasize the importance of implicit forms of learning in organizations. The social learning theory posits that individuals learn vicariously from others in organizations (Bandura, 1971, 1986). Sutherland and Cressey's (1970) theory of differential association postulates that individuals learn values, attitudes, and norms not from "society," but from individuals who are members of different groups, with differing norms, values, and attitudes. Both theories attest to the fact that people are influenced by their referent groups. The influence of organizational culture, referent groups, and other implicit means of institutionalizing ethical values in organizations is investigated in the next section.

Organizational Culture

Researchers (Deal and Kennedy, 1982; Kilmann, Saxton, & Serpa, 1985; Reidenbach & Robin, 1991; Schwartz and Davis, 1981; Sinclair, 1993; Wiley, 1995) have considered organizational culture as one of the most important tools in
the study of organizations. According to researchers (e.g., Genfan, 1987; Sinclair, 1993) organizational culture is the single most significant factor in setting the moral tone and direction of organizations.

Weiss (1994) defines organizational culture as the shared values and meanings that members of an organization hold in common and that are articulated and practiced by that organization's leaders. He opines that corporate culture is related to ethics through: (a) the values that leaders espouse and the leadership style they practice; (b) the heroes and heroines that the company upholds as models; (c) the rites, rituals, and symbols that organization values; and (d) the interaction pattern of the managers among themselves and with the various stakeholders.

Peters and Waterman (1982) states that the past examinations of high-performing organizations have shown that values and ethics play an important role in organizational effectiveness. Genfan (1987) believes that ethical behavior must permeate the organization and ethics should be part of the corporate culture, so that employees will automatically think in terms of ethical values when questions and problems occur. O'Boyle and Dawson (1992) also point out that if organizations want their employees to be ethical, they need to have an ethical culture because employees, by the fact that they want to belong, will
conform to the attitudes, customs, and practices of organizations.

In their discussion of the effectiveness of codes of ethics, Raiborn and Payne (1990) opine that codes of ethics will reflect the culture of the organization from which it stems; in other words, if there is a disparity between organizational culture and stated ethical concerns such as codes of ethics, employees will believe the implicit culture as opposed to the explicit code. Researchers document that behavior in organizations is affected by the corporate culture in which the employees work (Knouse & Giacalone, 1992; Sinclair, 1993; Singhapakdi, 1993; Weiss, 1994). Corporations often put pressure on employees to keep their personal values aside for corporate gains. The Wall Street Journal published the results of a survey in which the majority of managers said that they have felt pressure to compromise their personal standards and conform to company standards (October 1987).

Knouse and Giacalone (1992) also state that corporate culture generally provides individuals with an organizational reality or setting within which morally relevant actions can be discussed, judged, and sanctioned. They offer five methods for improving ethical decisions, viz., behavioral modeling, managerial controls, interventions, corporate ethical models, and organization development.
There is great potential for organizations to use their culture as a method of improving ethics (Sinclair, 1993). Culture is one of the main determinants of people's behavior in organizations. When things start to go wrong, examining the organizational culture often gives clues to the problems and offers solutions. Sinclair (1993) addressed the usefulness of the concept of organizational culture in improving the ethical climate of organizations. She examined how the concept of culture has been treated in organization theory and suggested that there are two approaches to molding organizational culture toward ethical ends - the unitary culture approach and the sub-cultural approach.

According to the proponents of the first approach, a unitary and cohesive organizational culture can be created around core ethical values of the corporation. It is very important that the management communicates the core beliefs and values of the corporation very clearly to all its employees (Andrews, 1989); this can be done by formulating credos that reflect the values permeating the firm (Murphy, 1989) and drafting specific codes of ethics from the credo. Laczniak and Murphy (1991) differentiate between corporate credos and codes of ethics by pointing out that while credos are general statements about organizational values, codes are specifically written and communicated to guide employee behavior.
The proponents of the sub-cultural approach do not believe that it is possible to create a cohesive organizational culture, because they believe that organizational culture is a mixture of many subcultures—national, racial, professional, and occupational—which coexist within the organization (Sinclair, 1993). These subcultures are more likely to influence the values and norms of their members than does the corporate culture (Wilkins and Ouchi, 1983).

So instead of trying to create culture, managers should try to understand the value differences of the subcultures within the organization (Gregory, 1983). Since most subcultures act as a source of surveillance and critique as far as the other members of the organization are concerned, these subcultures can be "construed of sources of ethical dialectic, as well as conflict" (Sinclair, 1993, p. 69).

According to the advocates of sub-cultural approach, managers should try to promote ethical behavior in organizations by acknowledging the existence of subcultures within organizations and by sponsoring the debate on value differences that exist within these subcultures. In other words, managers should get these subcultures to rethink their existing values.

Ibrahim, Rue, McDougall, & Greene (1991) had a valuable point when they suggested that in recent years there had been a shift in business ethics research. Research in
corporate morality has evolved from a focus on the value orientation of managers in organizations to an emphasis on the values of organizations. In the discussion of corporate culture and values, it is interesting to note that recently there has been a growth in the number of "Christian" companies (Ibrahim et al., 1991). These Christian companies have a unique corporate culture in that they have declared their belief in the successful merging of biblical principles with business activities. Many of these companies engage in regular on-site religious activities, and invite customers to Church to worship together. Ibrahim et al. reported that the type of relationship these companies maintain with their employees, customers, communities, and suppliers differs from those of secular companies.

The pivotal role of corporate culture in defining the ethics of organizations is acknowledged not only by academicians, but also by practicing managers. In a discussion concerning company ethics, a practicing manager, Robert D. Rossenbaum of Arnold & Porter, observed that if companies want their employees to follow ethical principles, they should promote a corporate culture that makes it clear to the employees that long-term careers are more important than any perceived short-term benefits that may arise out bending or breaking any law or rule (Ang, 1993).
The day-to-day activities of the business are so demanding that there is hardly anytime to reflect upon the moral content of decision making (Sims, 1992). Many managers perceive that, in the short run, morality hardly has any substantive connection to objective performance. But in the long run, morality pays, and so it is pertinent that organizations come forward and function with more positive ethical cultures even though ethical behavior might cost the organization more money in the short run.

Pastin (1986) identified four principles that govern high ethics corporations. He stated that high ethics firms: (a) are at ease interacting with their various stakeholder groups; (b) are obsessed with fairness; (c) believe in individual rather than collective responsibility; and (d) see their activities in terms of purpose. Weiss (1994) adapted Pastin’s principles and argued that these principles are indicators of a strong corporate culture and high-ethics firms are firms with high-ethics cultures.

Williamson (1990) pointed out that many researchers who examined the relationship between culture and ethics, focused on the different cultural variables that might promote or prohibit ethical behavior in organizations; one of these variables that deserves special attention is organizational politics. He cited Velasquez, Moberg, & Cavanagh (1983) and Thibodeaux and Powell (1985) to substantiate his point about the intricate web politics and
power weave in organizations. Velasquez et al. opined that power and politics are important aspects of organizational culture which need to be addressed before ethical guidelines can be implemented. Thibodeaux and Powell (1985) also pointed out the important part power plays in organizations and noted that the managerial misuse of positional power often leads to the detriment of employees and the deterioration of ethical standards in organizations. Cavanagh, Moberg, & Velasquez (1987) also examine the ethics of organizational politics.

Waters and Bird (1987, 1989) opine that morality needs to brought out of the closet and be acknowledged as an important dimension of corporate culture. In corporate America, managers do not discuss moral issues as they do marketing and finance issues. Many of the interviewees in the Waters and Bird's (1987) survey felt that in issues concerning morality, managers are very much alone, and often times, the inability to communicate with their peers and superiors regarding these matters puts an additional level of stress on managers. Even in companies that have moral standards, this open communication is important since most of the standards are not only general, but also vague and do not often help managers deal with specific situations. But, managers can get around this problem by creating an ethical corporate culture that values open communication.
Moral issues need to be handled differently from other issues; traditional bureaucratic structures and interventions such as rules and procedures, budgeting and auditing do not work in the realm of corporate morality (Waters and Chant, 1982). Since many of the existing systems do not have the scope, flexibility, and sensitivity to deal with moral issues (Waters and Bird, 1987), it is pertinent to establish a strong corporate culture that has a moral dimension.

In summary, it is apparent from the literature that corporate culture sets the moral tone for the corporation; an ethical culture will encourage employees to pay particular attention to the ethicality of their actions and an unethical culture will implicitly encourage employees to maximize short term gains, regardless of morality. The lack of empirical research on the influence of organizational culture on ethical behavior proves the fact that this topic has not been really explored (Sims, 1992). The influence of leadership is discussed in the next part of the study.

Leadership

Ethical leadership is defined as the management style that sets the moral standards for the organization by focusing on the integrity of common purpose (Hosmer, 1987). Researchers agree that the role of senior managers is crucial in defining organizational ethics and values
Role models are important in setting a positive ethical climate in organizations because humans as social beings are influenced by others (O'Boyle and Dawson, 1992). Ethical performance must always start at the top and if managers want their employees to be ethical, they need to provide ethical leadership (Brooks, 1992).

The importance of ethical leadership can never be overstated. For example, after presenting the various leadership theories and areas of concern, John Adair (1984) in his book, *The Skills of Leadership*, poses this significant question: "is the functional approach as described in these pages merely a cold method of analyzing leadership and developing efficient, but spiritually empty modern leaders?" (p. 262) He indicates that integrity and courage are the core qualities in the character of a good leader.

The hypothesis that leadership style influences the ethical climate of the organization is not a new concept; for example, Chester Bernard (1938) viewed leadership as the moral factor that creates the moral code for the organization. Management history provides examples of the need for moral qualities in a leader. For example, Taylor's functional foremen and Fayol's ideal managers were of good moral qualities. U.S. Marine Corps (Card MCS Form 719) and U.S. Army (FM 22-100 Military Leadership) list the moral
qualities of integrity, courage, justice, and judgment as the essential qualities of a leader (Adair, 1984).

As Raiborn and Payne (1990) point out, corporations are microcosms of society in which there are leaders and followers. Most often followers look up to the leaders for moral guidance, and if the leaders act unethically, followers will do the same since they want to avoid punishment. According to the results of a survey, 75 percent of the respondents felt that the chief executive officers (CEOs) are responsible for setting the ethical standard for employees to follow (Raiborn and Payne, 1990). The Treadway Commission, which was co-founded in 1985 by the American Institute of Certified Public Accountants (CPAs), found that in most cases of fraudulent financial reporting, the company’s top management team members, such as the CEO, Chief financial officer (CFO), and the president, were the perpetuators (National Commission of Fraudulent Financial Reporting, 1987).

Hosmer (1987), after discussing the ethical scandals that rocked General Electric, E. F. Hutton, and General Dynamics, points out that to a certain extent those companies, even though they had corporate codes of conduct, failed because of competitive pressures. In order for any ethics program to be successful, the business as usual type of management style should change. Instead, a style that pulls people together by defining a common objective rather
than pushes them to meet current financial projections, is needed to replace the old style.

Ethics in organizations is a multidimensional process involving decision making and leadership (Jayaraman and Ming, 1993). At the corporate level, leaders have a crucial part to play in synthesizing vision, power, and responsibility to conceptualize adequate social responsibility strategies. Ludwig and Longnecker (1993) point out that many ethical violations of upper managers are by-products of success, not of competitive pressures. They maintain that sometimes there is a fine line between tremendous success and ethical failure, and at times success breeds ethical failure.

Thompson (1990) points out that the ethical character of a corporation is set by its leaders through their words and deeds. Most employees look up to senior managers for guidance and are unwilling to risk their careers by acting unethically if they are not confident of their organization's support.

Organizational leaders have the ultimate responsibility in setting the moral tone of the corporation. As Waters and Bird (1987) point out that moral issues are so sensitive in nature that "they do not lend themselves to direction through conventional hierarchy and traditional patterns of authority and governance; transformation and reinforcement
of an organizational culture will require highly visible and active involvement by senior management" (p. 19).

Enderle (1987) describes the goals of managerial ethical leadership as clarifying and making explicit the ethical dimension that exists in every management decision, and formulating and justifying ethical principles which govern decision making in organizations. Ethical leadership also means being more sensitive to the people who will be affected by the decisions, and being more able to discern latent or emergent conflicts. Ethical leaders must be able to take into account the long-term perspective of any situation as opposed to the short-term perspective.

Murphy, Smith, & Daley (1992) found that leadership has a minimal influence on ethical behavior. But, their study also found that ethical conduct is more likely to occur in organizations when there is somebody--like a chief ethics manager--to actively manage ethics. Zabid & Alsagoff (1993), in their study of the ethical values of Malaysian managers, found that the behavior of an immediate supervisor is the single most important factor in influencing managers to commit unethical practices. Carlson & Perrewe (1995) posit that transformational leadership is the key to establishing an ethical organizational environment. Jones (1995) also points out the need for ethical leadership in order to better the ethical environment of organizations.
In summary, leadership is theorized to influence moral decision making in organizations, and so it is an implicit method of institutionalizing values in organizations (Brenner, 1992; Vitell et al., 1993). There is a lack of empirical research on the influence of leadership on the ethical behavior of employees (Bass, 1993). The influence of peer behavior is discussed in the next part.

Peer Behavior

The behavior of one's peers has a strong influence on his/her own behavior (Zey-Ferrell, Weaver, & Ferrell, 1979; Zey-Ferrell & Ferrell, 1982; Trevino, 1986, 1992; Vitell et al., 1993). This ties directly in with the social learning theory discussed in Chapter I because, as the social learning theory states, individuals learn vicariously from others. The influence of peer behavior on individual decision making in organizations is investigated in this section.

The literature on the influence of peer behavior can be divided into two groups: theoretical (e.g., Trevino, 1986, 1992; Vitell et al., 1993) and empirical (Zey-Ferrell et al., 1979; Zey-Ferrell & Ferrell, 1982). Trevino (1986), while proposing her person-situation interactionist theory of ethical decision making, points out that peers have significant influence on people; often people model their own behavior after their peers' behavior. Vitell et al.
also opine that the influence of peer groups should be considered in any model of ethical decision making in organizations.

Zey-Ferrell et al. (1979) and Zey-Ferrell and Ferrell (1982) tested the theory that peer behavior is the best predictor of an individual's ethical behavior in organizations. Zey-Ferrell et al.'s study of 280 marketing managers supported the above hypothesis regarding the influence of peers. Zey-Ferrell and Ferrell (1982) conducted a study in the advertising industry to determine the influence of referent groups on the ethical decision making behavior of advertising executives and corporate clients. The factor analysis of the respondents' answers revealed that opportunity and the influence of referent groups were the best predictors of the ethical behavior of the respondents. Corporate clients were more influenced by the beliefs of the top management and advertising executives were more influenced by the behavior of their peers.

In summary, peer behavior has a significant influence on people's decision making (Trevino, 1986, 1992). The influence of the reward system on ethical behavior is examined in the next section.

**Reward System**

Researchers show that reward systems can influence ethical and unethical behavior through direct rewards and
punishments (e.g., Hegarty & Sims, 1978; Jansen & Von Alinow, 1985; Laczniak & Inderrieden, 1986; Trevino, 1987; Trevino and Youngblood, 1990). Social learning theory suggests that, in organizations, individuals learn vicariously from what happens to others (Bandura, 1971, 1986; Mantz & Sims, 1981). Seeing others reinforced for certain behaviors (either ethical or unethical) arouses observers' expectancies that they will be similarly reinforced. So, if organizations want ethical behavior, they need to reward such behavior.

Hegarty and Sims (1978) tested the effects of various types of reinforcement on ethical decision making. In a study involving 120 undergraduate students, it was found that there was a direct positive relationship between rewards and ethical behavior, and that competition was found to be negatively correlated with unethical behavior. The results also revealed that the respondents' culture affected their ethical decision making behavior; foreign students were more unethical than U.S. students.

Trevino (1987) tested part of her "multiple influences model of ethical decision making" in her dissertation and summarized her findings in a later article (Trevino and Youngblood, 1990). She predicted that the social learning conditions of vicarious rewards and punishments influenced individuals' ethical decision-making behavior directly or indirectly by influencing their outcome expectancies. She
also hypothesized that individuals' cognitive moral development and locus of control moderated this causal relationship.

In order to test her theory, Trevino (1987) chose an experimental setting where MBA students participated in a two-hour management decision making exercise. Students were given four measures: an in-basket exercise, which provided the vicarious learning manipulations and measured the dependent variable, ethical decision making; the Defining Issues Test, which measured their cognitive moral development (CMD); Rotter's instrument, which measured their internal/external locus of control (LC), and a post-exercise questionnaire, which was designed to provide an indirect manipulation check.

Trevino's (1987) results showed that both CMD and LC directly affected ethical decision making. LC also indirectly affected ethical decision making by affecting individuals' outcome expectancies. Even though she found that vicarious reward influenced decision making indirectly by influencing outcome expectancies, she could not find any evidence that vicarious rewards or punishments directly affected ethical decision making. The method used in this study also deserves attention; unlike most ethics studies that use survey research, this study used a laboratory experimental setting to examine ethical decision making behavior.
Trevino and Youngblood (1990) concluded that "ethical decision making behavior in organizations appears to be a complex phenomenon influenced by the interplay of individual differences, how individual think about ethical decisions, and how organizations manage rewards and punishments" (p. 384). This model is also another application of the social learning theory discussed in the first chapter.

Laczniak and Inderriedan's (1987) experiment with MBA students also resulted in the finding that a code of ethics alone did not change people's behavior in organizations; instead, people acted more ethically when a wide variety of organizational influences, including rewards and punishments, suggested that ethical behavior is valued by the organization. This finding led the authors to conclude that tangible organizational rewards and punishments appear to be necessary to induce managerial response away from the shortest way to achieve profitability.

Thompson (1990) says that if corporate commitment to ethics is to be successful, corporations need to remove obstacles to ethical decisions. He substantiates that if the reward system does not conflict with ethical decisions, people will be more ethical, and vice versa. Genfan (1987), in his article on ethics training, observes that as with any training, rewards and punishments must follow ethical behavior, if managers want to sustain ethical behavior in organizations. His research suggests that unless top
management acknowledges and rewards ethical behavior, codes of ethics and ethics training will not have any lasting effect.

Other Implicit Means

The other two implicit means of institutionalizing values are performance evaluation and promotion systems (Brenner, 1992; Gellerman, 1989; Trevino, 1986). Some researchers (e.g., Bommer et al., 1987; Ferrell et al., 1989; Trevino, 1986) who proposed theories of ethical decision making have maintained that in order for any ethics program to be successful, it needs to be tied into performance evaluation and promotion systems. It is interesting to see that even though these two variables are important, there is hardly any research available on these topics. In any ethics institutionalization effort, it is also important to remember that top management support and open communication channels play crucial parts.

In summary, the preceding section with the various implicit and explicit ways of institutionalizing values in organizations. The explicit methods included codes of ethics (Brenner, 1992; Cressey & Moore, 1983; Gellerman, 1989; Laczniak & Inderrieden, 1987; Murphy, 1989; Raiborn & Payne, 1990; Townley, 1994; Weeks & Nanthel, 1992), ethics training (Callan, 1992; Dean, 1992; Delaney & Sockell, 1992; Thompson, 1990), ethics committees (Weiss, 1994), ethics

The Moderators

In any study that tries to investigate the effect of culture on a variable, it is important to rule out as many other explanatory variables as possible so that it can be predicted that culture alone accounted for the particular findings (Adler, 1983; Sekaran, 1983). This study follows the advice and takes into account two moderating variables—cognitive moral development and locus of control—which may cause rival hypotheses, if they are not taken into account. Researchers (e.g., Trevino, 1986, 87; Trevino & Youngblood, 1990; Vitell et al., 1993) point out that moderators are
Table 5
Summary of the Literature on Institutionalization

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**Note:** T - Theoretical  E(S) - Empirical (Survey)  
E(SC) - Empirical (Case Study)  L - Literature Review
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important in studies of the ethical attitudes and behavior of employees in organizations.

The relationship between the independent variables—the cultural dimensions—and the dependent variable—attitudes regarding the institutionalization of ethics—of this study is hypothesized to be moderated by two variables: an individual's level of cognitive moral development and his/her locus of control.

**Level of Cognitive Moral Development**

One of the significant theories of morality is Kohlberg's (1969, 1973, 1981, 1984) structural theory of cognitive moral development, a detailed description of which can be found in Chapter I. Kohlberg (1969, 1983) postulated that individuals reason at six stages that represent progressively different concepts of justice; these six stages are categorized into three levels of moral reasoning: preconventional, conventional, and postconventional.

The preconventional level has a right and wrong orientation, where individuals do the right thing to get rewarded or to avoid punishment. The conventional level has a social belonging orientation where individuals do the right thing to conform to the norms of the group. The last level, postconventional level, has a principle orientation where individuals do the right thing because it is the right thing to do.
Kohlbergian theory of cognitive moral development has been widely used by researchers in business ethics (e.g., Brabeck, 1984; Elm and Nichols, 1993; Dukerich, Nichols, Elm, and Vollrath, 1990; Nichols and Day, 1982; Manning, 1981; Ravella, 1985; Stratton, Flynn, and Johnson, 1981; Trevino, 1986; Trevino and Youngblood, 1990; Weber, 1990; Williamson, 1990; Wood et al., 1988). Williamson (1990) found that most managers reason from the conventional level—stages three and four—than the preconventional or post conventional level. This finding substantiated Kohlberg's argument that most adults reason at stages three and four. Other researchers who tried to categorize the moral reasoning of managers include Erdynast (1974), Ravella (1985), and Wood et al. (1988). Their results found support for the Kohlbergian theory of moral reasoning.

Moral reasoning has also been studied in risk taking context. Nichols and Day (1982), in their study of college students, found that the higher the respondents' level of moral reasoning, the higher their tolerance of risk; the students who reasoned at higher stages tended to take riskier courses of action in moral dilemmas than students who reasoned at lower stages. Trevino and Youngblood (1990), in their study of the relationship between reward system and ethical behavior in organizations, found that individuals' stage of cognitive moral development directly influenced their ethical decision making behavior.
Stratton, Flynn, and Johnson (1981) investigated whether the Kohlbergian theory of moral reasoning held true among a group of management students. The students were asked to respond to a moral dilemma involving padding an expense account; some students recommended padding the account while others did not. It is interesting to note that the students who recommended padding the expense account used justifications that characterize the first three stages of Kohlbergian moral reasoning while the other students used arguments from stages four, five and six. Trevino (1986), while proposing her person-situation interactionist model of moral reasoning, points out the importance of the stage of cognitive moral development on individuals' ethical behavior in organizations. When faced with a moral dilemma, individuals react with cognitions determined by their cognitive moral development stage. These cognitions in turn determine the way individuals think about and react to the dilemmas at hand; in other words, the process of determining what is right or wrong, in any given situation is a function of individuals' cognitive moral development stage. But, these cognitions by themselves do not predict ethical decision making behavior because of a variety of individual and organizational variables that moderate the relationship between individuals' stage of cognitive moral development and ethical behavior (Trevino, 1986).
Trevino (1986) theorized that individual moderators such as ego strength, field dependence, and locus of control and organizational moderators such as immediate job context, organizational culture, and characteristics of the work need to be taken into consideration in any model of ethical decision making in organizations. It should be noted that Trevino’s (1986) organizational moderators were further broken down into variables such as reinforcement or reward characteristics, reference groups, obedience to authority, and normative structure or norms of the organization. In other words, the implicit and explicit ways of institutionalizing values act as organizational moderators between individuals’ cognitive moral development stage and ethical behavior. So, logically any study that looks at the different ways of institutionalizing values should take individuals’ cognitive moral development into consideration because depending upon the level of moral development individuals react differently to different ways of institutionalization.

Vitell et al. (1993) pointed out that in cross-cultural studies of ethical attitudes and behaviors, it is important to see the influence of moderating variables such as an individual’s cognitive moral development and locus of control. Trevino and Youngblood (1990), in their study of the influence of reward system on the ethical decision
making of people, used cognitive moral development as a moderating variable.

In summary, Kohlberg's theory of cognitive moral development has been used extensively by business ethicists both as a predictor and a moderating variable. In this research, a person's cognitive moral development level is hypothesized to moderate the relationship between culture and his/her perceptions regarding the institutionalization of ethics.

Locus of Control

The second moderating variable of this research is locus of control. An individual's "locus of control" (LC) refers to his/her perception of how much control he or she exerts over events in life (Rotter, 1966). Individuals who believe that they can control the events of their lives have an internal locus of control, whereas individuals who perceive that the environment or destiny controls the events of their lives have an external locus of control (Rotter, 1966, Spector, 1982; Renn & Vandenberg, 1991). The concept of locus of control was developed to explain why some individuals ignored reinforcement contingencies (Phares, 1976).

Spector (1982) points out that belief in personal control, the distinguishing characteristic between internals and externals, has a direct and powerful effect on
organizations. LC has been widely used in organizational research to explain differences in many employee attitudes and behavior (Renn and Vandenberg, 1991; Spector, 1982). For example, research indicates that internals are: better at learning and problem solving (Phares, 1976); intrinsically motivated (Renn & Vandenberg, 1991); better performers (Andrisani & Nestel, 1976; Heisler, 1974; Valecha, 1972), and more satisfied with their jobs (Gemmill & Heisler, 1972; Organ & Greene, 1974; Satmoko, 1973; Singh, 1978) than externals.

Researchers (e.g., Dozier & Miceli, 1985; Hegarty & Sims, 1978, 1979; Terpstra, Reyes, & Bokor, 1991; Trevino, 1986, 1992; Trevino & Youngblood, 1990; Vitell et al., 1993) in business ethics have pointed out the importance of the concept of LC in the study of morality in organizations. According to Trevino (1986) and Trevino and Youngblood (1990), LC is one of the important personality variables that interacts with the different situational characteristics to influence ethical attitudes and behavior in organizations. Trevino and Youngblood (1990) reports that LC has been directly related to moral behavior, such as whistle-blowing (Dozier & Miceli, 1985), resistance to social pressure, cheating, willingness to harm another individual if told to do so by an authority figure, and helping behavior (Lefcourt, 1982).
Researchers found that locus of control is a predictor of unethical behavior in organizations (Hegarty & Sims, 1978, 1979; Terpstra, Reyes, and Bokor, 1991). Hegarty & Sims (1978, 1979) found that individuals with an external LC were more willing to engage in unethical behavior than individuals with an internal LC. In their study of the predictors of ethical decisions regarding insider trading, Terpstra, Reyes, and Bokor (1991) found that externals were more apt to engage in insider trading than were internals. Trevino and Youngblood (1990) found that LC influenced people's ethical decision making behavior by influencing their reward expectancies. Vitell et al. (1993) point out that in cross-cultural studies of ethical attitudes and behavior, LC must be considered as a moderator.

LC is hypothesized to moderate the relationship between cultural dimensions and managerial perceptions regarding the institutionalization of ethics for the following reasons -- the difference between internals and externals in: (1) conformity and compliance; (2) motivation, and (3) information processing. Research indicates that internals exhibit less conformity to norms than do externals (Biondo & McDonald, 1971; Hjelle & Clouser, 1970) and are less compliant to social pressures and organizational demands (Spector, 1982). So in this research, managers with an external locus of control will be more likely to conform to codes of ethics and other explicit forms of institutionali-
zing values than internals. Externals are more likely to accept authority figures than do internals (Spector, 1982) and so, externals will be more likely to look at supervisors for ethical guidance than do internals.

Studies (Broedling, 1975; Spector, 1982; Szilagy & Sims, 1975) show that internals and externals display attitudes toward performance-reward expectancies and that organizational reward systems have a greater influence on internals than externals. So, managers with an internal locus of control will be more likely to give importance to implicit forms of institutionalization such as reward and performance systems than managers with an external locus of control. Internals and externals also differ in learning and information processing; internals collect and use more information than externals because of their need to control events and situations (Phares, 1976; Spector, 1982). So in this research, internals are hypothesized to look more at the implicit forms of institutionalizing values than externals because an evaluation of the implicit forms requires higher information processing capacity than explicit forms that state the obvious.

In summary, as Trevino & Youngblood (1990) reported an individual’s locus of control (LC) is related to his/her ethical beliefs and behavior. This hypothesis is empirically supported by researchers such as Hagerty and Sims (1978, 1979), Trevino (1986), and Terpstra, Reyes, and
Bokor (1991). LC is hypothesized to influence this research because of its influence on human motivation, compliance of authority, conformance of norms, and information processing.

**Sectional Summary**

The topics of discussion of this section are the two moderating variables of this study -- cognitive moral development and locus of control. It is hypothesized that both variables moderate the relationship between cultural dimensions and U.S. and Indian managers' perceptions regarding the different methods of institutionalizing ethical values by influencing the managers' cognitions, information processing needs, and willingness to accept authority. The next section presents the research model and the hypotheses of this study.

**THE EFFECT OF NATIONAL CULTURE ON THE INSTITUTIONALIZATION OF ETHICS: A PROPOSED MODEL**

Figure I, the Effect of National Culture on the Institutionalization of Ethics: a Proposed Model, is central to this research. The purpose of this research is to test the relationships depicted in the model. Since this chapter is organized according to the different variables presented in the model, a detailed description of each of those variables will be redundant here. So, the purpose of this section is to give a quick summary of the literature review
THE EFFECT OF CULTURE ON INSTITUTIONALIZATION

Figure 1
pertaining to each variable and show how the literature leads to the different hypotheses that were tested in this study.

The psychoanalytic theory of morality states that human beings are driven by impulses that can be controlled through various interventions (Tice, 1980). People in organizations have always been subjected to various types of behavior modification methods in the form of interventions; one such intervention is codes of conduct, by which corporate America is trying to institutionalize morality.

Even though corporations are trying to institutionalize ethics both implicitly and explicitly (Brenner, 1992), most of the institutionalization literature have been focusing on codes of ethics (Murphy, 1989; Weller, 1992), the primary vehicle with which managers are trying to instill values (Weiss, 1994) in organizations. The popularity of conduct codes can be assumed from the fact that over 90 percent of Fortune 500 and most of the other corporations have such codes (Center for Business Ethics, 1992). As corporations cross their national boundaries to do business in other cultures, they try to standardize behavior through conduct codes (Trewatha et al., 1993).

Culture is an important variable that influence people's perceptions, beliefs, attitudes, and behavior (Bartels, 1967; Bommer et al., 1987; England, 1975; England and Lee, 1974; Hofstede, 1980, 1991; Hunt and Vitell, 1986;
McClelland, 1961; Rest, 1986; Trevino, 1992; Vitell et al., 1993). Hofstede (1980), whose seminal work on national culture was based on one of the largest databases available, maintains that national culture can be defined in terms of four dimensions—individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity—which prescribe people's relationships and values in any given country (1980, 1991). Researchers (e.g., Agarwal, 1993; Rodriguez, 1990; Sekaran and Snodgrass, 1986; Smith, 1992; Ueno and Sekaran, 1992) have tested Hofstede's model time and again investigating culture's influence on a variety of organizational variables (e.g., budget control practices, attitudes toward harmonization efforts, leadership styles, formalization and role stress, networks and configurations) in several countries (e.g., India, Japan, The People's Republic of China, USA, Venezuela). The influence of cultural dimensions on Indian and U.S. managers' perceptions regarding the institutionalization of ethics is investigated in this research effort.

The cultural dimension, individualism/collectivism, describes the relationship between the individual and the collectivity in a given society (Hofstede, 1980, 1983, 1991). In an individualistic society, people are primarily concerned with themselves and the members of their nuclear family. In a collectivist society, people have a very strong identification with the group. Given this, it is
hypothesized that individuals from a collectivist society will be more susceptible to group influences than people from individualistic societies (Vitell et al. 1993).


At this time, it is appropriate to reexamine Becker and Fritzsche's (1987) study, since it evidently supports the hypothesis about the influence of the cultural dimension of individualism/collectivism on managers' attitudes toward codes of ethics. Becker and Fritzsche (1987), in a survey of the French, German, and American marketing managers regarding their attitudes toward codes of ethics and business philosophy, found empirical evidence validating the above hypothesis. They found that American managers were more cynical about the effectiveness of codes of ethics, than were French managers. This is not surprising since Americans are more individualistic than the French, and thus are less influenced by group influences. So, it was speculated that Indian managers, members of a collectivist
culture, would perceive that employees of an organization would follow that organization's code of ethics. Thus, Indian managers believe that a code of ethics would have a greater impact on ethical behavior in organizations than would America managers, members of an individualistic culture.

H1. Indian managers are more likely than U.S. managers to perceive that codes of ethics would have a greater impact on ethical behavior in organizations.

The social learning approach to morality states that individuals learn vicariously from others in situations (Bandura, 1971, 1986; Davis and Luthans, 1980; Mantz and Sims, 1981; Trevino and Youngblood, 1990). Along the same line, the differential association theory (Sutherland and Cressey, 1970) posits that people learn ethical/unethical behavior from their interactions with other people who are in their referent groups (Ferrell et al., 1983; Zey-Ferrell et al., 1979; Zey-Ferrell and Ferrell, 1982). But the cultural dimension of power distance influences people's learning habits by prescribing from whom they learn (Vitell et al., 1993).

The cultural dimension, power distance (PD), refers to unequal distribution of power in any given society (Hofstede, 1980). In countries where the power distance is large, individuals are "more likely to accept the inequalities in power and authority that exists in most organizations, and are more likely to accord individuals in
prominent positions undue reverence compared to business practitioners in countries with a small power distance" (Vitell et al., 1993, p. 756). Individuals from a low PD culture will look up to their peers more than to their supervisors; the reverse is true for cultures where the PD is large. This does not mean that in large PD cultures, individuals do not learn from their supervisors or in small PD cultures, individuals do not learn from their peers; they do, and the social learning theory and the differential association theory clearly support this argument. But, it is the matter of the degree to which individuals learn from their supervisors or peers that is in question.

There is empirical evidence that supports this learning theory about the influence of referent groups. For example, on one hand, Zey-Ferrell et al.'s (1979) laboratory experiment showed that among U.S. subjects, peers' behavior influenced ethical behavior in organizations more than did the respondents' own beliefs, and Izraeli (1988) found that among Israeli subjects peer groups had more influence than supervisors in determining the employees' ethical behavior. On the other hand, Zabid and Alsagoff (1993), in their study of the perceived values of Malaysian managers found that the majority of the managers felt that the behavior of their immediate supervisor was the most significant factor that influenced their decision making; McDonald and Zepp (1988) found the same in their study of managers from Hong Kong.
These contradictory statements about the most influential referent group make sense if Hofstede's cultural dimension of power distance is applied to the situations. It is not surprising that subjects from a low PD culture such as U.S. and Israel were more influenced by their peers than by their supervisors and subjects from a high PD culture such as Malaysia and Hong Kong were more influenced by their supervisors than their peers. Similarly, it was argued that managers from India, a high PD culture, would take their ethical cue from their supervisors than they do from their peers and managers from U.S. a low PD culture would take their cues from their peers than they do from their supervisors.

H2. Indian managers are more likely than U.S. managers to perceive that they take their ethical cues from their supervisors.

H3. Indian managers are less likely than U.S. managers to perceive that they take their ethical cues from their peers.

Another cultural dimension that influences formalization in organization is uncertainty avoidance (Ueno and Sekaran, 1992). Uncertainty avoidance refers to the degree to which members of a culture are able to cope with unfamiliar and uncertain situations without experiencing tremendous stress (Hofstede, 1980; Ueno and Sekaran, 1992). High uncertainty avoidance cultures are extremely sensitive to unfamiliar circumstances and engage in behaviors that reduce uncertainty (Ueno and Sekaran, 1992). Low
uncertainty avoidance cultures are more comfortable with unfamiliar situations and do not exhibit the same passion for uncertainty reduction behaviors as do the high uncertainty avoidance cultures.

It is speculated that low uncertainty avoidance cultures will oppose mandatory policies and regulations, both organizational and governmental more than do the high uncertainty avoidance cultures. Since both India and U.S. are low uncertainty avoidance cultures, it is hypothesized that the majority of managers from both cultures will oppose the increased use of formalization in institutionalizing ethics in organizations.

The empirical evidence for this hypothesis includes the two studies of Khan and Atkinson’s (1987) examination of Indian and British managers, and Becker and Fritzsche’s cross-cultural comparison of French, German, and American managers. In Khan and Atkinson’s (1987) study, managers from both Britain and India, two low uncertainty avoidance cultures, opposed more legislation regarding the morality of businesses. In the second study, French managers, who are from a high uncertainty avoidance culture, were more favorable of the codes of ethics than were German or American managers, who are from less uncertainty avoidance cultures. Thus, it was hypothesized that:
H4a. The majority of Indian managers opposes the idea that greater formalization is needed to institutionalize ethics in organizations.

H4b. The majority of U.S. managers oppose the idea that greater formalization is needed to institutionalize ethics in organizations.

Masculinity/femininity refers to a culture's dominant values regarding gender socialization; these values are also reflected in the work place (Hofstede's 1980; 1991). Masculine cultures tend to emphasize material rewards whereas feminine cultures tend to emphasize non-material things such as the quality of life, and environment; masculine cultures show "money and things orientation," whereas feminine cultures are people oriented. Hofstede (1991) found evidence that the masculine cultures (MC) valued: (1) earnings - employees from a masculine culture placed emphasis on tangible reward systems; (2) recognition - employees from MC wanted to be recognized when they did a good job; (3) advancement - employees wanted an opportunity for advancement when they did a good job; and (4) challenge - employees from MC expected to get a personal sense of accomplishment from work.

This has direct implications for institutionalization of ethics, because it is hypothesized that people from masculine cultures will want the institutionalization efforts to be directly tied in to the other systems of the organization such as reward, performance evaluation, and promotion. As Brenner (1992) pointed out all organizations
have ethics programs—explicit and implicit—whether they recognize the programs or not. Corporations often pay more attention to the explicit forms of instilling values such as codes of ethics (Vallance, 1993; Murphy, 1989; Weller, 1988), ethics training (Dean, 1992; Genfan, 1987; Thompson, 1990), and ethics committees (Weiss, 1994) than to the implicit ways such as culture, leadership, reward system, performance evaluation, and promotion criteria. It has been empirically proven that explicit methods such codes of ethics and ethics training alone do not influence ethical behavior in organizations (Laczniak and Inderrieden, 1987).

Along the same lines, it is argued that the majority of managers from masculine cultures such as India and U.S. will perceive that in order for any institutionalization effort to be successful in organizations, these efforts need to be tied into the various implicit systems such as reward, performance and promotion. Another factor that gives credence to the theory that U.S. managers and Indian managers will give more importance to implicit ways of institutionalizing ethics is the influence of "referent others." Both the social learning (Bandura, 1971, 1986) and differential association (Sutherland & Cressey, 1980) theories posit that individuals learn vicariously from others in organizations. Researchers (Brenner, 1992; Callan, 1992; Hosmer, 1987; O'Boyle & Dawson, 1982; Trevino, 1986, Zey-Ferrell et al., 1979, Zey-Ferrell & Ferrell, 1982)
in business ethics have pointed out that ethical decision making in organizations is influenced by "referent others."

So, considering the arguments of masculinity and social learning theory together, it was hypothesized that:

**H5a.** The majority of Indian managers perceives that implicit forms of institutionalizing ethics would have a greater influence on raising the ethical climate of corporations than explicit forms of institutionalizing ethics.

**H5b.** The majority of U.S. managers perceive that implicit forms of institutionalizing ethics would have a greater influence on raising the ethical climate of corporations than explicit forms of institutionalizing ethics.

Culture is only one of the factors that influence people's ethical attitudes and behavior (Ferrell & Gresham, 1985; Ferrell et al., 1989; Hunt & Vitell, 1986; Jones, 1991). Vitell et al. (1993) points out the necessity to examine the influence of moderating variables in cross-cultural ethics studies. Individual factors such as cognitive moral development and locus of control often moderate the relationship between the influence of various organizational/situational factors and ethical attitudes and behavior (Trevino, 1986, 1987, 1992; Trevino & Youngblood, 1990; Vitell et al., 1993).

In order to rule out rival hypotheses and ascertain that the differences in the perceptions of U.S. managers and Indian managers are due to cultural characteristics, it is important to look at two cognitive factors—the level of cognitive moral development and locus of control—which
affects people's learning and information processing. So, it was hypothesized that:

H6: Managers' level of cognitive moral development moderates the relationship between culture and their perceptions regarding the institutionalization of ethics.

H7: Managers' locus of control moderates the relationship between culture and their perceptions regarding the institutionalization of ethics.

The moderating effect of the two variables--level of cognitive moral development and locus of control--will be examined by redoing the first five hypotheses based on the different moderating subgroups. The moderating subgroups for hypothesis six will be the managers belonging to the three levels--preconventional, conventional, and postconventional--of moral reasoning. The two moderating subgroups for hypothesis seven will be managers who have internal locus of control and managers who have external locus of control.

Chapter Summary

The literature that is relevant to this research is summarized in this chapter. Hofstede's cultural dimensions and the usefulness of these cultural dimensions in cross-cultural ethics studies are discussed in the first section. The explicit and implicit ways by which corporations institutionalize ethics are examined in the second section. The two moderators of this research--level of cognitive
moral development and locus of control—are discussed in the third section. The research model and the various hypotheses of this research are presented in the last section.
CHAPTER III

RESEARCH METHODOLOGY

Introduction

The purpose of this chapter is to describe the methodology of this research. The chapter is divided into eight sections: sampling plan, data collection procedures, operational definitions, pilot study, methodological issues in cross-cultural research, overall reliability and validity, data analyses, and chapter synopsis.

Sampling Plan and Response Rate

The purpose of this study is to investigate the influence of culture on the perceptions of U.S. managers and Indian managers regarding the institutionalization of ethics. In accordance with this purpose, the population for this research includes all managers in the U.S. and India. The sample for this study came from U.S. multinationals that have operations in India; more specifically, human resource and marketing managers from the home (U.S.) and host (India) countries made up the target population.

The Uniworld Business Publications' Directory of American Firms Operating in Foreign Countries (1994)
provided the list of U.S. affiliated companies in India. The directory's list indicated that there were 171 U.S. affiliated companies in India. But, for the purpose of this research only 130 companies were used since some of the companies that were on the original list were closed, taken over, merged with other companies, or were unable to be contacted for the study. Since response rates to mail surveys are generally low (Ueno and Sekaran, 1992), I decided to survey all of these 130 U.S. affiliated corporations in India and their parent companies in the U.S. The sample was comprised of human resource managers and marketing managers from both the parent country and host country. Some companies in India were so small that one person, usually a general manager, was in charge of both the functions of marketing and human resource management. Five U.S. companies, which were holding companies, also had similar problems with the two functional areas.

A total of 460 questionnaires (255 to the American managers and 205 to the Indian managers) were mailed to the concerned managers in the two countries. The power analysis (Welkowitz, Ewen, and Cohen, 1982) revealed that for a power of .90, an alpha of .05, and an effect size of .50, I needed a total of 168 (84 each) responses from the two groups. This denoted a response rate of 24.4 percent, which is similar to those of other international surveys (e.g., Akaah, 1990; Becker & Fritzche, 1987) found in the
literature. Since the desired power level is very conservative (the commonly accepted level is .80), there was little cause for alarm even if the response rate had been somewhat lower.

Of the 460 questionnaires mailed, 231 responses were returned, resulting in a response rate of 50.22%. Of these, 57 responses were not used in this study since 50 of the questionnaires were not filled out and seven were only partially completed. All of these 57 respondents were primarily returning the monetary incentive that was sent along with the questionnaire along with their explanation that they could not accept the dollar since they did not complete the survey.

Of the 205 surveys sent to the Indian managers, 105 were returned indicating a response rate of 51.22%. Of these 105 surveys, only 88 were in a usable state resulting in an effective participation rate of 42.93% by the Indian managers. Of the 255 questionnaires sent to the American managers, 126 were returned, for a participation rate of 49.41%; only 86 of these were in a usable form. So, the effective participation rate of the American managers is 33.72%. In total, 174 usable responses were received that makes the combined effective participation rate of the total sample 37.83%.
Data Collection Procedures

Data collection was performed through a mail survey. The actual mechanics of this procedure differed slightly between the U.S. and Indian sample. I sent the questionnaires directly to each of the U.S. managers by mail; instead of directly mailing the questionnaires to the Indian managers, I sent them to Mr. Tom Jos (Director of Industries & Commerce, Government of Kerala) in Kerala, India whom in turn mailed the questionnaires to the appropriate managers. Two compelling reasons motivated me to take this step: (a) to minimize the cost of international mailing; and (b) to save time since a letter from the U.S. can take anywhere from 12 to 16 days to reach the various parts of India.

All managers received a packet containing a cover letter, questionnaire, my business card, a new one dollar bill (a gift check for Rs. 25 for the Indian respondents), and a self-addressed, stamped, return envelope. The incentive differed between the respondent groups because Indian laws do not allow the transmission of a foreign currency over the mail without permission. The questionnaire consisted of four parts -- part I is Rest's defining issues test, part II is Rotter's locus of control scale, part III is the institutionalization of ethics opinion questionnaire, and part IV contains questions regarding demographics (Please refer to Appendix A). Prior
to sending the questionnaires, all the companies were contacted for the names of the appropriate managers since research (Erdos, 1983) has shown that addressing respondents by their names instead of titles increases the response rate.

Twelve days after the first mailing, I sent a reminder postcard to the entire U.S. sample. After that I waited for another 10 days, and by then I had received all, but 10 of the required responses from the U.S. group. So, I did not send the follow up letter to all the non-respondents; instead the follow up letter was sent to a randomly selected group of 50 non-respondents. As Erdos (1983) points out there are three types of individuals in every sample: (a) eager beavers who love to answer everything; (b) just people who are uninterested in answering surveys, but will do so if asked repeatedly; and (c) born non-respondents who will not answer surveys. My follow up letter was aimed at the second group and contained a copy of my questionnaire and a new cover letter. This new cover letter used more persuasive words as researchers (Erdos, 1983; Dilman, 1978) have shown that persuasive cover letters can increase the response rate. It was planned that if the response rate is below 25 percent after these follow ups, I would contact the non-respondents and request them to respond to a few demographic questions so that I could know the characteristics of these non-respondents. But, I did not have to do this since the
response rate was satisfactory. Mr. Jos sent follow up letters to the Indian group.

Operational Definitions

The variables, surrogates, and measures of this study are described in this section. The section is divided into four parts according to the different variables--cultural dimensions, institutionalization of ethics, cognitive moral development, and locus of control--used in the study. Each of the different parts, with the exception of the first part on cultural dimensions, will have a detailed description of the measures, including reliability and validity issues.

The Cultural Dimensions

The independent variables of this study are the cultural dimensions of individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity as described by Hofstede (1980, 1983, 1991). For this study, Hofstede's dimensions were not remeasured; instead, I used the classification scheme provided by Hofstede for the two groups--U.S. and India--of my target population. This is not unusual in the literature, and examples of studies that have used the same method include Ueno and Sekaran's (1990) study of the budgetary practices in the U.S. and Japan, Nyaw and Ng's (1994) study of the ethical beliefs of students from Canada, Japan, Hong Kong, and Taiwan, and
Agarwal's (1993) cross-national comparative study involving U.S. and India.

Hofstede (1991) provides cultural dimension index values for 50 countries and three regions; only the values for U.S. and India will be discussed here as they are the countries under investigation. On the individualism/collectivism index, U.S. stood first (highly individualistic) with a score of 91 points out of the possible 100; India scored 48 points and ranked 21st out of the 50 countries and 3 regions. The mean was 53, making U.S. an individualistic and India a collectivist society. On the power distance index, the U.S. ranked 38, scoring 40 points whereas India ranked 10/11 scoring 77 points, making India, a high power distance culture and U.S., a low power distance culture.

On the uncertainty avoidance index, U.S. and India stood close, ranking 43 (with a score 46) and 45 (with a score of 40) respectively, out of the possible 53 countries or regions. This shows that U.S. and India are low uncertainty avoidance cultures. On the masculinity/femininity index, U.S. scored 62 points for a rank of 15 and India scored 56 points for a rank of 20/21. This indicates that both countries are masculine cultures.
Institutionalization of Ethics


There are no standardized instruments to measure the institutionalization of ethics. So, the questionnaire-- Institutionalization of Ethics Opinion Questionnaire (IEOQ)--was developed from the literature and two existing

The IEOQ

The IEOQ measures perceptions regarding the institutionalization of ethics. It is a 32-item questionnaire which uses five-point Likert-type responses ranging from strongly agree to strongly disagree. A Likert format was used because there is evidence that it is superior to other formats, and its underlying factorial structure is more stable across situations and cultures (Ashkanasy, 1988). The IEOQ presents respondents with a recognition task and should take about 15 minutes for completion.

The IEOQ contains both original questions and questions from two existing questionnaires; items from Becker and Fritzsche's (1987) and Vitell and Davis's (1990) questionnaires are added to the original list of questions to compile this questionnaire. Since the IEOQ is an original measure, there are no prior reliability and validity figures. The IEOQ has construct validity since the questionnaire items regarding the implicit and explicit ways of institutionalizing ethical values were carefully chosen from the literature after a thorough search on the topic. The questionnaire was carefully designed according to the specifications set forth by Belson (1981) and Fowler (1993).
to ensure that the questions were properly worded. The reliabilities of IEOQ that were calculated for this sample are the following: (1) the Cronbach's alpha (C.A.) for the construct, "formalization," is .78; (2) the C.A. for the construct, "codes," is .76; and (3) the C.A. for the construct, "implicit institutionalization" is .65. The overall reliability of the test .68. This is well within the accepted range of reliability levels for preliminary research recommended by Nunnally (1967).

**Level of Cognitive Moral Development**

The level of cognitive moral development is one of the two moderating variables of this study. The surrogates are preconventional, conventional, and postconventional levels. The measures are Defining Issues Test (DIT) summed ranks stage 2 score for the preconventional level, DIT summed ranks stages 3 and 4 for the conventional level, and DIT percent of the summed ranks' P score. A more detailed description of DIT is given below.

**The DIT**

The DIT is the most widely used measure of moral reasoning and best documented in terms of reliability and validity (Rest, 1990). It is based on Kohlberg's (1969, 1980, 1983) theory of cognitive moral development, which is an extension of Piaget's (1932) work. Kohlberg (1969, 1983)
theorized that individuals reason at one of the three levels—preconventional, conventional, and postconventional—in a moral dilemma. Rest (1979, 1986, 1990) developed the DIT based on these three levels to assess the moral reasoning of individuals. The DIT consists of six hypothetical dilemmas that deal with a variety of social issues such as stealing a drug to save a life, administering an overdose of morphine to kill a dying woman in pain, and discontinuing a school newspaper for its disturbing influence (Elm and Weber, 1994; McCrea, 1985; Williamson, 1990).

Respondents choose the four most important issues in the six hypothetical stories; there are twelve items for each story (Payne, 1988). More specifically, the DIT is an objective, multiple-choice test (Payne, 1988) where the subjects are requested to rate and rank the importance of a series of statements that are typical of the different stages of moral reasoning (Elm and Weber, 1994). A "P" score or "principled moral reasoning score," which is a continuous index ranging from 0-95, and scores for stages 2, 3, 4, and M are generated from the responses (Rest, 1990; Williamson, 1990). The stage 2 score represents the preconventional level of moral reasoning, the scores from stages 3 and 4 represent the conventional level of moral reasoning and scores from stages 5A, 5B, and 6 represent the post-conventional or principled level.
Two of DIT's remarkable features are its standardization and ease of administration; the other remarkable feature is its internal checks on subject reliability (Williamson, 1990). Rest (1990) points out that the "consistency check" and the "M" score are designed to check on the reliability of each subject's response. The M score is a social desirability index that represents the degree to which a subject endorsed statements for their pretentiousness rather than their meaning (Rest, 1990). The DIT also includes a consistency check that enables researchers to isolate the respondents who have not clearly read the test, but have checked through items at random (Elm and Weber, 1994; Payne, 1988; Rest, 1979, 1986). Rest (1990) recommends discarding questionnaires that have: a raw M score of 8 and above; inconsistencies on more than two stories; or inconsistencies on any story exceed eight instances (Williamson, 1990).

The DIT has a disadvantage as far as mail researchers are concerned; it takes approximately 35-45 minutes to complete the questionnaire. In order to minimize this problem, a short version of the DIT that consists of three stories, instead of six, is available; but, this short version has a lower reliability score. Since the reliability of the measure is important, I decided to use the long version of DIT instead of the short one. Anticipating a low response rate due to the length of the
questionnaire, I decided not only to include a monetary incentive with a questionnaire, but also to be up front about this problem and appeal to the goodwill of the respondents.

Another issue that was taken into account was DIT’s suitability in India. Rest (1990) pointed out that comprehending DIT requires a ninth grade education and that DIT should be used with caution in non English speaking countries. This should not be a problem in India, where English is one of the main languages. I discussed the issue with Dr. Rest, and he suggested that I pilot test the instrument in India. This was done and Indian managers did not have any problems with the DIT, though they pointed out that one of the six stories ("Student Take-over") was not as relevant to them as the other five.

The DIT is highly reliable and valid (Elm and Weber, 1994; Payne, 1988; Trevino, 1986). Rest (1990) cites Davidson and Robbins’s (1978) conclusion that the test-retest reliabilities for the P and D scores of the DIT are in the high .70s and .80s, and the Cronbach’s Alpha index of internal consistency is in the high .70s. Since the DIT is concerned with making judgments about moral problems, it has face validity (Rest, 1979, 1990). Some business researchers (Elm and Weber, 1994; Payne, 1988) have pointed out that the DIT is not adapted to business situations, and so the face validity of DIT when used in the business field is rather
suspect. This contention does not hold much merit for this study because the DIT is not used in this research to make predictions about managers' moral behavior in business situations, rather it measures their underlying level of moral development that moderates their perceptions regarding the various ways of institutionalizing ethics. Moreover, the DIT has been extensively used by researchers (e.g., Elm and Nichols, 1993; Poneman and Glazer, 1990; Trevino, 1986; Trevino and Youngblood, 1990; Williamson, 1990) in business ethics studies.

Rest (1979, 1990) shows that DIT has criterion group validity since the different groups of subjects who should have different scores on the DIT in fact had different scores. He shows how a group of doctoral students in philosophy and political science had higher DIT scores than a group of ninth graders. The longitudinal validity of DIT had been proven by 10 studies and the convergent-divergent validity has been proven by comparing and contrasting DIT with other similar and dissimilar measures of moral reasoning (Rest, 1990). Davidson et al. (1979) has also validated the internal structure of DIT through multidimensional scaling and latent trait theory.

Locus of Control

Locus of control (LC) is the second moderator used in this research. The surrogates are internal and external
locus of control, which were measured by Rotter’s (1966) internal-external locus of control scale. Rotter’s scale is the one of the most widely used measures of locus of control (Marsh and Richards, 1986, 1987; Ward and Thomas, 1985). The social learning theory provides the theoretical background for this variable (Rotter, 1966).

Rotter’s LC

Rotter’s LC scale consists of 29 question pairs; 9 pairs are filler questions (Robinson & Shaver, 1973). It uses a forced-choice format and in LC, statements concerning internal locus of control are paired with statements concerning external locus of control. Respondents are asked to choose one of the two statements that would best describe their opinion on the various topics, such as the contribution of luck in people’s success, the element of control people have on their lives, and corruption among the politicians. The administration of the scale is easy since it is a self administered scale that can be completed in 15 minutes. In spite of the popularity of the Rotter scale, it has many critics. Ashkansay (1988) point out that some of the criticisms of the scale include the appropriateness of the forced-choice format (Collins, 1974), correlation with social desirability (Stern and Manifold, 1977), culture specificity (Furnham and Henry, 1980) and multidimensionality (Watson, 1981).
Rotter's LC is reliable and valid (Robinson & Shaver, 1973). Rotter (1966) reports Kuder-Richardson internal consistency coefficients ranging from .69 to .73 and a test-retest reliability score of .72 from different samples of psychology students at Ohio State. Goodman and Waters (1987) have pointed out that Blau (1984) reported an alpha coefficient of .71 from a sample of business students. Rotter's scale has discriminant validity because it negatively correlates with social desirability scores (Robinson & Shaver, 1973) and convergent validity because it positively correlates with other measures of locus of control (Goodman and Waters, 1987). Marsh and Richards (1986) reported evidence for the construct validity of the internal-external construct as measured by the Rotter scale.

In summary, two standardized instruments and one nonstandardized instrument are used in this study. The standardized instruments, the DIT and LC, measure the moderating variables—level of cognitive moral development and locus of control—of the study. The non-standardized instrument, IEOQ, measures the dependent variable of the study—the institutionalization of ethics. Several items from two existing questionnaires are included in this non-standardized instrument. Table 6 summarizes the variables, surrogates, and measures of the study and Table 7 summarizes the characteristics of the instruments.
Table 6

Summary of the Variables, Surrogates, and Measures*

<table>
<thead>
<tr>
<th>Variables</th>
<th>Surrogates</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture</td>
<td>U.S. and India</td>
<td>Self-report</td>
</tr>
<tr>
<td>Institutionalization of ethics</td>
<td>Implicit and explicit</td>
<td>Score on IEOQ</td>
</tr>
<tr>
<td>Locus of control</td>
<td>Internal or external</td>
<td>Number of internal items</td>
</tr>
<tr>
<td>Post-conventional moral reasoning</td>
<td>DIT 5A, 5B, and 6</td>
<td>DIT summed ranks’ P score</td>
</tr>
<tr>
<td>Conventional moral reasoning</td>
<td>Total percentages</td>
<td>DIT summed ranks’ scores of stages 3&amp;4</td>
</tr>
<tr>
<td>Preconventional moral reasoning</td>
<td>total percentages</td>
<td>DIT summed ranks stage 2 score</td>
</tr>
</tbody>
</table>

Table 7
Comparison of the Attributes of DIT, LC, and IEOQ

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>DIT</th>
<th>LC</th>
<th>IEOQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authors</td>
<td>Rest</td>
<td>Rotter</td>
<td>Original</td>
</tr>
<tr>
<td>Broad</td>
<td>Morality</td>
<td>Social learning</td>
<td>Institution-alization of ethics</td>
</tr>
<tr>
<td>Theoretical Background</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific</td>
<td>Kohlberg's cognitive</td>
<td>Rotter's internal</td>
<td>Brenner's implicit</td>
</tr>
<tr>
<td>Theory</td>
<td>moral development</td>
<td>external</td>
<td>explicit</td>
</tr>
<tr>
<td>Base</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Format</td>
<td>Likert</td>
<td>Forced choice</td>
<td>Likert</td>
</tr>
<tr>
<td>Demand Characteristics</td>
<td>Recognition task</td>
<td>Recognition task</td>
<td>Recognition task</td>
</tr>
<tr>
<td>Administration Process</td>
<td>Written survey</td>
<td>35-40 minutes</td>
<td>15 minutes</td>
</tr>
<tr>
<td>Data analysis</td>
<td>Mathematical calculation</td>
<td>Mathematical calculation</td>
<td>Mathematical calculation</td>
</tr>
<tr>
<td>Data configuration</td>
<td>Continuous variable</td>
<td>Continuous variable</td>
<td>Continuous variable</td>
</tr>
<tr>
<td>Reliability and Validity Issues</td>
<td>Reliable &amp; valid</td>
<td>Proven construct, convergent, divergent, longitudinal, criterion validities</td>
<td>No prior reliability or validity figures</td>
</tr>
<tr>
<td></td>
<td>Proven construct, convergent, divergent, longitudinal, criterion validities</td>
<td>Alpha scores of upper .60s and lower .70s</td>
<td></td>
</tr>
<tr>
<td>Limitations</td>
<td>Time</td>
<td>Dimensionality</td>
<td>Non standardization</td>
</tr>
<tr>
<td></td>
<td>U.S. developed</td>
<td>U.S. developed</td>
<td>U.S. developed</td>
</tr>
</tbody>
</table>

Pilot Study

Researchers (Dilman, 1978; Erdos, 1983) recommend pilot testing the questionnaire to ensure that the questions are well understood by the target population. In order to validate the questionnaire, I did the following:

(1) Requested a panel of experts to validate my questionnaire; the panel members included the members of my dissertation committee and three outside members (Drs. Nwachukwu, Rest, Vitell) who are familiar with the business ethics literature. Drs. Nwachukwu and Vitell were consulted about the IEOQ instrument, and Dr. Rest about the administration of DIT in India.

(2) Sent the questionnaire to Tom Jos so that the questionnaire was tested in India. Instead of tapping the target population, Mr. Jos administered the questionnaire to a group of 10 managers who had similar characteristics with those of my Indian sample.

(3) Surveyed the students who attended business classes; the majority of these students worked full-time, and thus shared similar characteristics with the U.S. managers of my sample.

Based on the feedback I received from the respondents of my pilot study, modifications were made to the questionnaire in order to improve its construct validity. No modifications were made to the first two sections of my instrument—the DIT and Rotter’s locus of control measure—since they are validated instruments; but IEOQ was modified
to improve its construct validity. The following discussion details the process by which the pilot study was used to improve the construct validity of IEOQ.

I used Anastasi’s (1982) definition of construct validity that it is a comprehensive concept, which includes face, content, and criterion-related validities. So, the aim of my pilot study was to improve all the above mentioned validities in an attempt to improve IEOQ’s construct validity. The pilot test revealed the following: (1) Some respondents, especially some Indian respondents, had interpretation problems with the original IEOQ questionnaire which was a 7-point Likert scale. These respondents had problems differentiating among "agree somewhat, agree and strongly agree" and "disagree somewhat, disagree, and strongly disagree." (2) The original IEOQ asked about "ethics 1-800-numbers" and some respondents had trouble understanding what this concept meant. (3) The order of the questions in the original IEOQ caused some confusion among the respondents. (4) The statement about the impact of code of ethics was unclear to some respondents. (5) The original questionnaire contained statements that started out with "you" and some respondents, especially some of my committee members suggested that this be changed to "I."

Based on the feedback, I changed the questionnaire to a 5-point Likert scale, defined ethics hotlines more clearly in the questionnaire, reordered the questions, added another
question to measure the impact of codes of ethics, and changed the third person pronouns in the questionnaire to first person pronouns. Thus, the pilot study was used to improve the validity of IEOQ. Another use of the pilot study was to see if respondents from India and US differed in their responses depending upon the influence of cultural dimensions. Anastasi (1982) states that comparing the test performance of contrasted groups is one way of checking the construct validity of a test designed to measure postulated traits. I used the pilot study to compare the responses of the two groups to ensure that they differed based on culture. The panel of experts provided a verification point not only for the face validity of the questionnaire, but also for "construct explication" as described by Nunnally (1967), a concept related to construct validity. The panel members who are familiar with the business ethics literature provided me with feedback regarding the explication (the process of making abstract words explicit in terms of observable variables) of constructs such as implicit and explicit forms of institutionalizing ethics.

Methodological Issues in Cross-cultural Research

Researchers have pointed out that several methodological problems plague cross-cultural research (Alder, 1983; Sekaran, 1983). Sekaran (1983) points out the five major methodological and design concerns in cross
cultural research: ensuring functional equivalence, problems of instrumentation, data-collection methods, sampling design issues, and data analysis. I had taken care to minimize such problems in this study.

Functional equivalence is ensured since both U.S. and Indian managers have experienced moral dilemmas at work and can give their perceptions regarding the various attempts that are made to institutionalize morality in organizations. Problems with instrumentation are also minimized in this research. By administering the questionnaire in English in both countries, the problems that result from translation do not occur in this study, and by pilot testing the questionnaires in India, I have made sure that the measures developed in the U.S. are transferable to India.

Problems with data-collection--response equivalence, timing of data collection, and status and other critical psychological issues--as described by Sekaran (1983), are minimized by taking the appropriate steps. Response equivalence is ensured by adopting uniform data collection procedures such as the same cover letter and incentives (to provide equivalence in motivation), and same instructions, to both Indian and U.S. groups in the sample. The timing of data collection has been given particular importance, and care had been taken to ensure that surveys are sent out to Indian and U.S. managers at the same time. In order to minimize any status and other critical psychological issues
that might be involved when nonresidents of a country collect data, I asked a resident of the country, Mr. Tom Jos, to mail the questionnaires from India.

The main sampling design concern with regard to cross-cultural research is whether it is possible to obtain samples that are representative of the culture (Sekaran, 1983). I have tried to minimize this problem by making sure that my sample in both countries is not geographically limited. Thus, care had been taken to minimize the problem of convenience sampling.

The data-analyses techniques chosen for the study are t-tests, ANCOVAs, MANCOVAs, and z tests; these techniques are appropriate given the nature of this research that compares the attitudes of Indian and U.S. managers and examines proportions. T-tests are used to compare the means of two groups using independent samples containing data of at least near interval level of measurement (e.g., Likert data). Z tests are used to find the proportion of managers who have answered questions in a certain way. ANCOVAs and MANCOVAs are used to find the moderating effects.

Overall Reliability and Validity

As was mentioned earlier, the reliability of the overall questionnaire is unknown, even though reliabilities of the first two parts are known. The reliability of the IEOQ questionnaire for this sample is .68 and the
reliability of LC is .78. The validity of this mail survey is questionable, since I could not control who answered the questionnaire and the circumstances under which respondents answered the questions; I can only hope that the appropriate managers answered the questionnaire.

A variety of validity issues addressed by Cook and Campbell (1979) is examined here as they relate to this research. There is monomethod bias because of the singular data collection method--questionnaire--of this study. In order to minimize the inadequate pre-operational explication of constructs, I have defined constructs, such as business ethics and institutionalization in the cover letter. But, it is possible that some respondents may have used different definitions of constructs such as ethics and morality. The cross-cultural nature of the research also makes it possible for the respondent groups from the two countries to interpret the constructs slightly differently. There is mono-operation bias because one of the constructs is measured by only one question.

The threats such as hypothesis-guessing within experimental conditions, evaluation apprehension, experimenter expectancies, confounding constructs and levels of constructs, interaction of different treatments, and interaction of testing and treatments do not apply to this study since the study is a mail survey. The nature of the design--static group comparison--makes the study vulnerable
to internal validity threats. Thus, it will not show any casual relationships. This does not diminish the significance of the research in any way since the purpose of the study is not to establish causal relationships, but to look at how culture influences managerial perceptions regarding institutionalizing ethics.

The threats to external validity such as interaction of setting and treatment, interaction of selection and treatment, and interaction of history and treatment can be ruled out for this study. The fact that the sample is not a convenience sample increases the generalizability of the study. Another validity threat is common methods variance with data collected from a single source, as identified by Avolio, Yammarino, & Bass (1991), since several constructs of this study are measured by the same data collection instrument.

Data Analytical Techniques

The data were analyzed using the appropriate computer software, viz. Statistical Package for Social Sciences (SPSS) and Microsoft Excel. The data analytical techniques of this study were t-tests, ANCOVA, MANCOVA, and z tests. The appropriateness of t-tests as the data analytical technique comes from the comparative nature of the study. Since two of the hypotheses (four and five) are about the
number of managers who answered questions in a certain way, 
z-tests are appropriate to test for the proportion.

Specifically, hypotheses one, two, and three are 
analyzed using t-tests for independent samples and 
hypotheses four and five are analyzed using z-tests. 
Hypotheses six and seven are analyzed using ANCOVA and 
MANCOVA since both these hypotheses deal with moderating 
variables or covariates. Rest (1990) asks researchers to 
purge the responses if the two internal consistency tests of 
the DIT show that the responses are checked at random or 
reflect a high social desirability level. I have taken 
Rest’s recommendation and have shown both purged and 
unpurged responses based on the internal consistency checks 
of DIT.

Chapter Summary

This research used a mail questionnaire to measure the 
perceptions of U.S. and Indian managers regarding the 
institutionalization of ethics in corporations. A total of 
460 surveys were mailed out to the human resource and 
marketing managers of the U.S. multinationals, both in the 
U.S. and in India. There are several problems in a cross- 
cultural study such as this, that threaten the reliability 
and validity of the study; steps had been taken to minimize 
these problems. The responses were analyzed using t-tests, 
ANCOVAs, MANCOVAs and z-tests to see if the various
hypotheses listed in Chapter II are supported. The results of these tests are given in the next chapter.
CHAPTER IV

RESULTS

Introduction

The results of the study, which is described in the first three chapters, are presented in this chapter. The chapter is divided into three parts: characteristics of the respondents, results of statistical analyses, and chapter summary. The first part presents the demographic characteristics of the respondents, as well as selected organizational characteristics of the companies for which the respondents work. The results of the statistical analyses of the various variables of the study are presented in the second section. The acceptance or non-acceptance of the different hypotheses is the main focus of this section. The chapter ends with a summary that emphasizes the main points of the chapter.

Characteristics of the Respondents

This section presents the demographic and organizational characteristics of the respondents. Although these factors do not affect the hypotheses directly, they may help us in understanding and interpreting the test results; this discussion can be found in Chapter V. The
demographic characteristics of the sample such as age, gender, nationality, religious affiliation, educational background, annual income, and functional area are presented in the first part. The organizational characteristics, such as size, presence of ethics code within the company, and presence of ethics code within the industry, are presented in the next part along with information regarding the presence of ethics codes in the respondents' profession.

Demographic Characteristics

Age

Table 8 portrays the age distribution of the participants. The largest percentage of the Indian managers (30.68%) is in the 30-39 age category, whereas the largest percentage of American managers (37.21%) is in the 40-49 age category. The majority of the respondents (55.23%) is between 30 and 50 years old.

Table 8

Distribution of Overall Sample Across Respondent Age Categories

<table>
<thead>
<tr>
<th>Age Group (Years)</th>
<th>Indian Managers (Frequency)</th>
<th>U.S. Managers (Frequency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 30</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>30-39</td>
<td>27</td>
<td>21</td>
</tr>
<tr>
<td>40-49</td>
<td>25</td>
<td>32</td>
</tr>
<tr>
<td>50-59</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>60-69</td>
<td>8</td>
<td>7</td>
</tr>
</tbody>
</table>
Gender

The overwhelming majority of the respondents, from both India and U.S., is male. As shown in Table 9, almost 97% (96.59) of the Indian managers who responded to the survey are male. Similarly, 83.53% of the U.S. respondents are male.

Table 9

<table>
<thead>
<tr>
<th>Gender Type</th>
<th>Indian Managers (Frequency)</th>
<th>U.S. Managers (Frequency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>85</td>
<td>71</td>
</tr>
<tr>
<td>Female</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>No response</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Nationality

Almost 99% (98.86%) of the Indian respondents participated indicated that they are nationals of the Republic of India. Ninety-four percent of the U.S. respondents are nationals of the United States of America. One of the Indian respondents indicated that he was a U.S. national. Among the U.S. participants, two indicated that they were nationals of India, and three indicated that they were nationals of other countries such as Mexico and Belgium.
Table 10
Distribution of Overall Sample Across Respondent Nationality Categories

<table>
<thead>
<tr>
<th>Respondent Nationality</th>
<th>Indian Managers (Frequency)</th>
<th>U.S. Managers (Frequency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian</td>
<td>87</td>
<td>80</td>
</tr>
<tr>
<td>U.S.</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>No response</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Religious Affiliation

Almost 82% (81.82%) of the Indian respondents reported that their religious affiliation is Hinduism. The next highest percentage of Indian managers (6.82%) identified themselves as Catholics, followed by Sikhs (4.55%), and Muslims (3.41%). Among the U.S. respondents, the Protestants were the majority (43.53%), followed by Catholics (35.29%), and non-believers (7.06%). The U.S. respondents (10.59%) who choose the "other category" include Jews and Mormons.

Education

The majority of the participants from both India and U.S. have college degrees. Ninety-two percent of the Indian respondents indicated that they have a college degree; so did 88% of the U.S. respondents. Among the Indian respondents, 46.60% have a masters degree and 45.45% have a
bachelors degree. Among the U.S. respondents, 36.47% have Bachelor's degree and 44.71% have a master's degree. Table 12 shows the overall educational level of the sample.

Table 11
Distribution of Overall Sample Across Respondents' Religious Affiliation Categories

<table>
<thead>
<tr>
<th>Religious Affiliation</th>
<th>Indian Managers (Frequency)</th>
<th>U.S. Managers (Frequency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catholic</td>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td>Buddhist</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Hindu</td>
<td>72</td>
<td>2</td>
</tr>
<tr>
<td>Islamic</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Protestant</td>
<td>1</td>
<td>37</td>
</tr>
<tr>
<td>Sikh</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>No Affiliation</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>No answer</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 12
Distribution of Overall Sample Across Respondents' Educational Level Categories

<table>
<thead>
<tr>
<th>Educational Level (Degree)</th>
<th>Indian Managers (Frequency)</th>
<th>U.S. Managers (Frequency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High School</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Bachelors</td>
<td>40</td>
<td>38</td>
</tr>
<tr>
<td>Masters</td>
<td>41</td>
<td>31</td>
</tr>
<tr>
<td>Doctorate</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Attended college; no degree</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>No response</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>
Income

The majority of both Indian (91.76%) and U.S. managers (60.98%) earn an annual income over $(Rs.) 80,000. Sixty-two percent of Indian managers and 31% of the U.S. managers indicated that their annual salary is above $(Rs.) 140,000. Table 13 depicts the answers of the respondents regarding their annual income.

Table 13
Distribution of Overall Sample Across Respondents' Income Categories

<table>
<thead>
<tr>
<th>Income level ($/Rs.)</th>
<th>Indian Managers (Frequency)</th>
<th>U.S. Managers (Frequency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 40,000</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>40,000-60,000</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>60,001-80,000</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>80,001-100,000</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>100,001-120,000</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>120,001-140,000</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Above 140,000</td>
<td>53</td>
<td>25</td>
</tr>
<tr>
<td>No response</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

Functional Area

The functional affiliation of the respondents is portrayed in Table 14. Almost 39% (38.6%) of the Indian managers and 46% (45.88%) of the U.S. managers reported that their functional area is marketing. Twenty-two percent of Indian managers and 45.88% of the U.S. managers identified
their functional area as human resources. Forty percent of the Indian managers and 8.2% of the U.S. managers chose the "other category." The other category included general management, legal services, and finance. Many of the Indian managers at the subsidiary level were in charge of several different functions at the same time; this is why the majority of the Indian managers who chose the "other category" were the general managers of their respective corporations.

Table 14
Distribution of Overall Sample Across Respondents' Functional Area Categories

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>Indian Managers* (Frequency)</th>
<th>U.S. Managers (Frequency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>34</td>
<td>39</td>
</tr>
<tr>
<td>HR</td>
<td>19</td>
<td>39</td>
</tr>
<tr>
<td>Other</td>
<td>35</td>
<td>7</td>
</tr>
<tr>
<td>No response</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

As the demographic section indicates, the profile of an average respondent shows that the respondent is a male manager in his thirties or forties, who is college educated, either a Christian or a Hindu (depending upon whether the respondent is from the U.S. or India), who has high earning power. The majority of the respondents is either from marketing or from human resources. Now that the demographic characteristics of the respondents have been presented, let
us look at selected organizational characteristics of the corporations that employ the respondents.

Organizational Characteristics

Four organizational characteristics are presented in this section of the paper: size of the organization, presence of ethics code in the organization, presence of ethics code in the industry, and the presence of ethics code in the respondents' profession.

Size

For this study, organizational size was measured in terms of the number of employees who are employed by the corporation. The majority of Indian managers (24.14%) who responded to the survey work for small organizations (between 1 and 99 employees), whereas the majority of the U.S. managers (64.71%) who responded indicated that they work for large (over 1,000 employees) corporations.

Table 15

Distribution of Overall Sample Across Respondents' Organizational Size Categories

<table>
<thead>
<tr>
<th>Size # of employees</th>
<th>Indian Managers (Frequency)</th>
<th>U.S. Managers (Frequency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-99</td>
<td>21</td>
<td>7</td>
</tr>
<tr>
<td>100-249</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>250-499</td>
<td>12</td>
<td>11</td>
</tr>
</tbody>
</table>
Presence of Corporate Ethics Codes

Table 16 portrays the overall distribution of the sample regarding the presence of corporate ethics codes. The majority of the Indian participants (65.52%) indicated that the organizations they worked for did not have corporate ethics codes. In contrast, the majority of the U.S. participants (64%) reported that their organizations had codes of ethics. Two respondents each from both groups did not know whether their companies had conduct codes and one manager from each country did not answer the question.

Table 16
Distribution of Overall Sample Across Corporate Ethics Code Categories

<table>
<thead>
<tr>
<th>Response</th>
<th>Indian</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>28</td>
<td>55</td>
</tr>
<tr>
<td>No</td>
<td>57</td>
<td>28</td>
</tr>
<tr>
<td>Don't know</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>No response</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Presence of Industry-wide Ethics Codes

As Table 17 indicates, the majority of both groups of managers—Indian (66.28%) and U.S. (53.57%)—responded that their industries did not have any code of ethics. Only
19.77% of Indian managers and 15.48% of American managers indicated that their industry had ethics codes. A surprising percentage of managers from both groups—13.95% of Indian managers and 30.95% of American managers—did not know whether there were any ethics codes in their industry.

Table 17
Distribution of Overall Sample Across Industry Ethics Code Categories

<table>
<thead>
<tr>
<th>Response</th>
<th>Indian</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>17</td>
<td>13</td>
</tr>
<tr>
<td>No</td>
<td>57</td>
<td>45</td>
</tr>
<tr>
<td>Don't know</td>
<td>12</td>
<td>26</td>
</tr>
<tr>
<td>No response</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Presence of Ethics Codes in the Profession

As depicted in Table 18, almost 35% (34.48%) of Indian managers and 38.55% of U.S. managers reported that they have professional code of ethics/conduct. Fifty-two percent of Indian managers and 24% of U.S. managers did not know whether their professions had any code of ethics. Fifty-two percent of Indian managers and 37.35% of U.S. managers answered that their professions did not have ethics codes.
Table 18
Distribution of Overall Sample Across Professional Ethics Code Categories

<table>
<thead>
<tr>
<th>Response</th>
<th>Indian</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>30</td>
<td>32</td>
</tr>
<tr>
<td>No</td>
<td>45</td>
<td>31</td>
</tr>
<tr>
<td>Don't know</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>No response</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

To summarize this section, the majority of American respondents works for large corporations that have codes of ethics; however, a code of ethics is not as widespread in the respondents’ industry or profession as it is in their place of employment. The majority of Indian respondents works for small to medium size organizations that do not have a code of ethics. Just like their American counterparts, most of these Indian managers do not work in industries or professions that have codes of ethics. A surprising number of managers from both the groups did not know whether their industries or professions have ethics codes. The results of statistical analyses are presented in the next section.

Results of the Statistical Analyses

The statistical results of the various hypotheses tested are narrated in this section. As indicated in
Chapter II, seven hypotheses were tested for the purpose of this study; the results of these tests are given below.

**Hypothesis One**

Hypothesis One that was based on the individualism/collectivism dimension of national culture posited that "Indian managers are more likely than U.S. managers to perceive that codes of ethics have a greater impact on ethical behavior in organizations." The statistical tool used to test this hypothesis is the t-test for independent samples, assuming equal variances. Two statements about the organizational impact of codes of ethics were used to test the hypothesis. As discussed in Chapter II, the Institutionalization of Ethics Opinion Questionnaire (IEOQ), which is used to measure managerial perceptions regarding the institutionalization of ethics, used a five-point Likert-type response ranging from strongly agree (1) to strongly disagree (5).

As indicated in Table 19, the analyses of both the statements about the impact of codes of ethics show that the results are statistically significant at an alpha of .05. The mean "codes have a greater impact" (CGI) scores of Indian managers are lower than those of the American managers (Indian = 1.69 and U.S. = 2.16; Indian = 2.01, U.S. = 2.40), illustrating that Indian managers perceived that codes of ethics have a greater impact on ethical behavior in
organizations than did American managers. Thus the first hypothesis is supported \( (t = -3.90, \text{df} = 172, \text{one tailed } p = .000069; \ t = -3.30, \text{df} = 170; \text{one tailed } p = .00059) \). The alpha level for this hypothesis, as well as all the other hypotheses in this study is .05.

Table 19

<table>
<thead>
<tr>
<th>Group (CGI)</th>
<th>Mean</th>
<th>s.d.</th>
<th>t-value</th>
<th>df</th>
<th>one-tailed p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian</td>
<td>1.69</td>
<td>.76</td>
<td>-3.90</td>
<td>172</td>
<td>.000069</td>
</tr>
<tr>
<td>U.S.</td>
<td>2.16</td>
<td>.82</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Group (CGI)</th>
<th>Mean</th>
<th>s.d.</th>
<th>t-value</th>
<th>df</th>
<th>one-tailed p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian</td>
<td>2.01</td>
<td>.81</td>
<td>-3.30</td>
<td>170</td>
<td>.0005917</td>
</tr>
<tr>
<td>U.S.</td>
<td>2.4</td>
<td>.73</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Hypotheses Two and Three**

The second and third hypotheses will be discussed together since they are based on the power distance dimension of national culture. Both these hypotheses investigate the influence of referent groups on ethical decision making in organizations. The second hypothesis states that Indian managers are more likely than U.S. managers to perceive that they take their ethical cues from their supervisors, and the third hypothesis posits that Indian managers are less likely than U.S. managers to perceive that they take their ethical cues from their peers.
The hypotheses were operationalized using a statement regarding the degree to which managers relied upon their supervisors rather than their peers for ethical guidance. A five-point Likert-scale ranging from one (strongly agree) to five (strongly disagree) was used to measure managers' agreement to the statement. Both hypotheses two and three were tested by using a t-test for independent samples, assuming equal variances. As Table 20 indicates, the mean for the Indian group is lower than that of the U.S. group (mean for the Indian group = 2.47 and for the U.S. group = 2.78) indicating that Indian managers perceived that they relied more on their supervisors for ethical guidance than they relied upon their peers where as U.S. managers relied less on their supervisors for ethical guidance than did Indian managers. The results were statistically significant at an alpha of .05 (t = -2.02, df = 172, one tailed p-value = .0227). Thus, the results support the hypotheses.

Table 20

<table>
<thead>
<tr>
<th>Group</th>
<th>Mean</th>
<th>s.d.</th>
<th>t-value</th>
<th>df</th>
<th>one-tailed p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian</td>
<td>2.47</td>
<td>1.01</td>
<td>-2.02</td>
<td>172</td>
<td>.02273</td>
</tr>
<tr>
<td>U.S.</td>
<td>2.78</td>
<td>1.03</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A word of caution is warranted here. Though the t-test showed statistical significance for hypothesis three, a
later statement in the questionnaire that was used as a consistency check indicated that there may be a consistency problem with the response to this particular question.

Hypothesis Four

Hypothesis four was further broken into two sub-hypotheses: H4.A and H4.B. Since both these hypotheses dealt with proportions, z-tests for population proportions were used to validate the hypotheses. Hypothesis 4.A that stated that the majority of Indian managers will oppose the idea that greater formalization is needed to institutionalize ethics in organizations is not supported based on the results of the statistical analyses. For measurement purposes, the concept formalization was operationally defined by two statements about the need for governments and companies to enforce more rules and regulations to promote ethics in organizations. As indicated by Table 21, the z-value for the first statement was \(-2.99\) (p-value = .999), and the z-value for the second statement was \(-3.84\) (p-value = .9999). This indicates that the managers opined in the opposite direction as was predicted. So, hypothesis 4.A is not supported.

The hypothesis 4.B that stated that the majority of U.S. managers will oppose the idea that greater formalization is needed to institutionalize ethics in organization is supported based on the statistical analyses.
The z-value for government imposed formalization is 3.88 (p-value = .0005), and the z-value for companies enforcing greater formalization is 2.28 (p-value = .0113). Table 21 shows the result of the analyses.

Table 21
Z-Test for the Proportion of Indian and U.S. Managers Who Opposed the Idea that Greater Formalization is Needed to Institutionalize Ethics

<table>
<thead>
<tr>
<th>Manager Group</th>
<th>Type of Formaliz. Effort</th>
<th>N</th>
<th>n</th>
<th>Z-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian</td>
<td>Government</td>
<td>88</td>
<td>30</td>
<td>-2.99</td>
<td>.999</td>
</tr>
<tr>
<td></td>
<td>Company</td>
<td>88</td>
<td>25</td>
<td>-3.84</td>
<td>.9999</td>
</tr>
<tr>
<td>U.S.</td>
<td>Government</td>
<td>86</td>
<td>61</td>
<td>3.88</td>
<td>.0005</td>
</tr>
<tr>
<td></td>
<td>Company</td>
<td>85</td>
<td>53</td>
<td>2.28</td>
<td>.0113</td>
</tr>
</tbody>
</table>

Note:
N = Sample Size
n = Number opposed formalization
n/N = Percentage of managers who opposed formalization

Hypothesis Five

Hypothesis five, which investigated the relationship between the cultural dimension of masculinity/ femininity and the institutionalization of ethics, was broken down into two sub-hypothesis: 5.A and 5.B. These hypotheses investigated the perceptions of U.S. managers and Indian managers regarding the explicit and implicit forms of institutionalizing ethics in organizations. Based on the literature review, it was hypothesized that managers from both groups would perceive that implicit forms of institutionalizing ethics would have a greater impact on
raising the ethical climate of organizations than explicit forms of institutionalizing ethics. Thus, both these hypotheses dealt with comparing the two population proportions of implicit forms and explicit forms for the two groups. In other words, the hypothesis was that 1 for implicit forms of institutionalizing ethics would be significantly larger than 2 for explicit forms.

Hypothesis 5.A states that the majority of Indian managers will perceive that implicit forms of institutionalizing ethics will have a greater impact on raising the ethical climate of corporations than explicit forms of institutionalizing ethics. Since this hypothesis compared population proportions, the z-test for comparing two population proportions was used to test the hypothesis. As indicated in Table 22, the 1 for implicit forms of institutionalization was .83 and the 2 for the explicit forms of institutionalization was .59. The z test for comparing the population proportions of .83 and .59 yielded significant results (Z score = 8.64, p-value = .000). Thus, this hypothesis is supported.

The surrogates that were used in the research and the percentage of managers who agreed with the statements regarding the effectiveness of the surrogates in raising the ethical climate of organizations are given below. Implicit forms of institutionalizing ethics are operationally defined as reward system (71.6%), performance evaluation system
(75%), promotion system (61.4%), corporate culture (88.6%),
ethical leadership (94.3%), top management support (94.3%),
and open communication channels (92%). Explicit forms of
institutionalizing ethics are operationally defined as codes
of ethics (92%), ethics training (90.9%), ethics newsletters
(69.3%), ethics hotline (36.4%), ethics officer (21.8%), and
ethics committees (45.5%).

Hypothesis 5.B states that the majority of American
managers will perceive that implicit forms of
institutionalizing ethics will have a greater impact on
raising the ethical climate of corporations than explicit
forms of institutionalizing ethics. Like hypothesis 5.A,
this hypothesis also compares two populations proportions:
implicit forms of institutionalizing ethics and explicit
forms of institutionalizing ethics. As indicated in Table
22, the 1 score of implicit forms for American managers is
.81 which is significantly larger than the 2 score for the
explicit forms which is .54. Thus, this hypothesis is
supported by the z-test for comparing two population
proportions for large, independent samples (z-score 9.58, p-
value = .000).

The surrogates used in the research and the percentage
of managers who agreed with the surrogates regarding the
effectiveness of the surrogates in raising the ethical
climate of organizations are given below. Implicit forms of
institutionalizing ethics are operationally defined as
reward system (44.2%), performance evaluation system (69.8%), promotion system (65.1%), corporate culture (93%), ethical leadership (98.8%), top management support (96.5%), and open communication channels (96.5%). Explicit forms of institutionalizing ethics are operationally defined as codes of ethics (70.9%), ethics training (90.7%), ethics newsletters (47.7%), ethics hotline (39.5%), ethics officer (27.1%), and ethics committees (46.5%). Table 22 depicts these scores.

Table 22
Z-Test for the Proportion of Indian and U.S. Managers Who Perceived that the Implicit Forms of Institutionalizing Ethics Would Have a Greater Impact on Ethical Behavior in Organizations than Explicit Forms of Institutionaliz.

<table>
<thead>
<tr>
<th>Manager Type</th>
<th>Institutionaliz. Form</th>
<th>N</th>
<th>n</th>
<th>Z score</th>
<th>p-val.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian Implicit</td>
<td>Reward System</td>
<td>88</td>
<td>63</td>
<td>.72</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Performance Eval.</td>
<td>88</td>
<td>66</td>
<td>.75</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Promotion System</td>
<td>88</td>
<td>54</td>
<td>.61</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Corporate Culture</td>
<td>88</td>
<td>78</td>
<td>.89</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Top MGMT Support</td>
<td>88</td>
<td>83</td>
<td>.94</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ethical Leadersh.</td>
<td>88</td>
<td>83</td>
<td>.94</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Open Communicat.</td>
<td>88</td>
<td>81</td>
<td>.92</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>616</td>
<td>508</td>
<td>.83</td>
<td></td>
</tr>
</tbody>
</table>

|              | Explicit | Codes of Ethics | 88 | 81 | .92 | |
|              |          | Ethics Training | 88 | 80 | .91 | |
|              |          | Ethics Newsletter | 88 | 61 | .69 | |
|              |          | Ethics Hotlines | 88 | 32 | .36 | |
|              |          | Ethics Officer | 87 | 19 | .22 | |
|              |          | Ethics Committees | 88 | 40 | .46 | |
|              | Total | 527 | 313 | .59 | 8.64 | .000 |

U.S. Implicit
| Reward System | 86 | 38 | .44 | |
| Performance Eval. | 86 | 60 | .70 | |
| Promotion System | 86 | 56 | .65 | |
Corporate Culture  86  80  .93
Top MGMT Support  86  85  .99
Ethical Leadersh.  86  83  .96
Open Communicat.  86  83  .97

Total  602  485  .81

Explicit
Codes of Ethics  86  61  .71
Ethics Training  86  78  .91
Ethics Newsletter  86  41  .48
Ethics Hotlines  86  34  .40
Ethics Officer  85  23  .27
Ethics Committees  86  40  .47

Total  515  277  .54  9.58  .000

Note:
N = Sample Size
*N - note that the construct, "implicit forms of institutionalization of ethics" is operationalized using 7 surrogates and the construct, "explicit forms of institutionalization of ethics" is operationalized using 6 surrogates
n = Number favored a particular institutionalization form
n/N = Percentage of managers who favored a particular institutionalization form

Hypotheses Six & Seven

Hypotheses six and seven will be discussed together since these two hypotheses test the moderating effect of moral reasoning and locus of control on Indian and US managers' perceptions of institutionalizing ethics in organizations. Before discussing hypothesis six, a word of caution about the response rate to this question is warranted. Only 169 of the 174 responses are used for this particular question since 5 responses to the Defining Issues Test (DIT) were not in a usable form. As discussed in Chapter III, two internal reliability checks are used in the DIT: the consistency check and the M score. The consistency check checks not only for random or careless responses, but also for respondents' misunderstanding of
instructions. The "M score" reflects the respondents' tendency to pick out lofty-sounding answers that do not mean much to the purpose of the DIT.

Rest (1988) pointed out that the cutoff points for these internal reliability tests are heuristic in nature and recommended that researchers use both unpurged (all the responses) and purged responses (only those responses passing the internal reliability tests) for their analyses (Williamson, 1990). This study follows this recommendation. Forty-one out of the 169 responses failed the internal validity check; so, the purged sample size for this section of the study is 128. This 24.26% failure rate, although higher than the 5 to 15% failure rate that Rest (1988) considered typical, is consistent with the high failure rate reported in non-controlled settings by researchers such as Williamson (1990). This failure rate can be attributed to three primary reasons: the research method, the length of the questionnaire, and the number of respondents who spoke English as a second language. This research, unlike the typical DIT test taking situations that are in controlled settings, used DIT in a mail survey setting; so, the respondents did not have the opportunity to listen to the researcher's specific instructions regarding the DIT.

Another reason may be the length of the questionnaire. The questionnaire that was used for this study had four sections and required at least 55 minutes of the
respondents' time. Considering that the DIT was the third section of the questionnaire, respondent fatigue is a serious possibility that deserves attention. Another consideration is the number of respondents who spoke English as a second language. Another factor might have been the respondents' perception that the DIT, along with the locus of control section, did not have much to do with my research, which was about the institutionalization of ethics in organizations. One of the respondents called to ask me why I included those two sections in my questionnaire, and some others indicated their puzzlement as to the purpose of those sections. Given the fact that moral reasoning and locus of control are the moderating variables of this research, I did not directly address them in my cover letter because I did not know how to do so without letting the respondents know about the possibility of the moderating effect.

As per Rest's (1988) recommendation, both unpurged (n=169) and purged (n=128) samples are used in this research. Of the 41 (27 Indian managers and 14 U.S. managers) responses that failed the internal reliability test, 22 (16 Indian managers and 6 U.S. managers) failed the internal consistency check and 19 (11 Indian managers and 8 U.S. managers) failed the "M score" test. It is also important to note that among the 41 failures, there were
four responses (1 Indian manager and 3 U.S. managers) that failed both of the tests.

Hypothesis six states that managers’ moral reasoning moderates the relationship between culture and their perceptions regarding the institutionalization of ethics in organizations. Hypothesis seven states that managers’ locus of control moderates the relationship between culture and their perceptions regarding the institutionalization of ethics in organizations. In order to test for hypothesis six, the respondents’ perceptions regarding the institutionalization of ethics in organizations were analyzed based on the respondents’ cognitive moral reasoning (CMD) score. The respondents were placed in three groups based on their moral reasoning levels. Group 1 respondents reasoned at the pre-conventional level, whereas group 2 respondents reasoned at the conventional level, and group 3 respondents reasoned at the post-conventional level.

Similarly, in order to test for the moderating influence of locus of control, the respondents’ perceptions regarding the institutionalization of ethics in organizations were analyzed based on their locus of control (LC) type. The respondents were placed in one of the two groups based on their locus of control. Group 1 respondents had an external locus of control, whereas group 2 respondents had an internal locus of control (LC). The statistical procedures of ANCOVA and MANCOVA were used to analyze to see managerial
responses to the institutionalization of ethics varied according to their moral reasoning and locus of control.

Before the presentation of the results, it is useful to go back and revisit the premises of the study regarding the impact of cultural dimensions on managerial perceptions. Of the four cultural dimensions—individualism/collectivism, power distance, uncertainty avoidance, masculinity/femininity—India and US are different in two dimensions and similar in two dimensions. Thus, when ANCOVA and MANCOVA are used to find the significance for the main effects of the cultural dimensions, the effects of two dimensions are expected to be different and the effects of the other two are expected to be similar.

The first hypothesis is about the influence of the cultural dimension of individualism/collectivism on managerial perceptions regarding the codes of ethics. Two statements about the organizational impact of codes of ethics were used to test the hypothesis about the effectiveness of ethics codes. The responses of the managers were analyzed to see if their CMD moderated their responses to the institutionalization of ethics. In order to determine whether respondents' CMD level influenced their responses to the first hypothesis, I used ANCOVA. As indicated in Table 23, the results did not suggest that CMD level influences managerial perceptions regarding codes of
ethics. The results also show that locus of control did not moderate managerial perceptions.

One of the statements (S), "a code of ethics will have a greater impact on the ethical behavior of employees in organizations," seem to be more effective in capturing the perceptions of managers than the other statement (F), "a code of ethics will raise the ethical level of the company."

Table 23

ANCOVA to Test Whether the Relationship Between Individualism/Collectivism and Managers' Perceptions Regarding the Impact of Codes of Ethics on Ethical Behavior is Moderated by Moral Reasoning and Locus of Control

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>Sum of Square</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig. of F</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Unpurged (F) Covariates</td>
<td>1.81</td>
<td>2</td>
<td>0.94</td>
<td>0.40</td>
<td></td>
</tr>
<tr>
<td>LC</td>
<td>0.53</td>
<td>1</td>
<td>0.53</td>
<td>0.85</td>
<td>0.36</td>
</tr>
<tr>
<td>Moralre.</td>
<td>0.69</td>
<td>1</td>
<td>0.69</td>
<td>1.09</td>
<td>0.30</td>
</tr>
<tr>
<td>Main Effects</td>
<td>6.52</td>
<td>1</td>
<td>6.52</td>
<td>10.34</td>
<td>0.002</td>
</tr>
<tr>
<td>Indiv/Col.</td>
<td>6.52</td>
<td>1</td>
<td>6.52</td>
<td>10.34</td>
<td>0.002</td>
</tr>
<tr>
<td>Explained</td>
<td>10.15</td>
<td>3</td>
<td>3.38</td>
<td>5.36</td>
<td>0.002</td>
</tr>
<tr>
<td>Residual</td>
<td>104.13</td>
<td>165</td>
<td>0.63</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>114.28</td>
<td>168</td>
<td>0.68</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(S) Covariates</td>
<td>1.39</td>
<td>2</td>
<td>0.70</td>
<td>1.16</td>
<td>0.22</td>
</tr>
<tr>
<td>LC</td>
<td>0.51</td>
<td>1</td>
<td>0.51</td>
<td>0.85</td>
<td>0.36</td>
</tr>
<tr>
<td>Moralre.</td>
<td>0.92</td>
<td>1</td>
<td>0.92</td>
<td>1.54</td>
<td>0.22</td>
</tr>
<tr>
<td>Main Effects</td>
<td>3.93</td>
<td>1</td>
<td>3.93</td>
<td>6.56</td>
<td>0.01</td>
</tr>
<tr>
<td>Indiv/Col.</td>
<td>3.93</td>
<td>1</td>
<td>3.93</td>
<td>6.56</td>
<td>0.01</td>
</tr>
<tr>
<td>Explained</td>
<td>7.23</td>
<td>3</td>
<td>2.41</td>
<td>4.02</td>
<td>0.009</td>
</tr>
<tr>
<td>Residual</td>
<td>97.57</td>
<td>163</td>
<td>0.60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>104.80</td>
<td>166</td>
<td>0.63</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Purged (F) Covariates | 0.87 | 2 | 0.43 | 0.67 | 0.51 |
| LC | 0.03 | 1 | 0.03 | 0.05 | 0.83 |
| Moralre. | 0.82 | 1 | 0.82 | 1.27 | 0.26 |
The statistical analyses that investigated the moderating effect of CMD regarding the premises of hypotheses two, three, four, and five did not show many significant differences. For hypothesis two and three, which tested the moderating effect of CMD and LC on the relationship between the cultural dimension of power distance and managerial perceptions of referent groups, the results did not show any moderating effects. Thus, the level of moral reasoning did not prove to influence managerial perceptions regarding the influence of peers and supervisors. Managers’ locus of control also did not moderate their perceptions. These results are shown in Table 24.

The premises of hypotheses 4.A and 4.B that deal with the relationship between the cultural dimension of uncertainty avoidance and managerial perceptions regarding

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
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<td>4.22</td>
<td>1</td>
<td>4.22</td>
<td>6.55</td>
</tr>
<tr>
<td>Indiv/Col.</td>
<td>4.22</td>
<td>1</td>
<td>4.22</td>
<td>6.55</td>
</tr>
<tr>
<td>Explained</td>
<td>6.77</td>
<td>3</td>
<td>2.26</td>
<td>3.51</td>
</tr>
<tr>
<td>Residual</td>
<td>79.85</td>
<td>124</td>
<td>0.64</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>86.62</td>
<td>127</td>
<td>0.68</td>
<td></td>
</tr>
<tr>
<td>(S)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Covariates</td>
<td>0.54</td>
<td>2</td>
<td>0.27</td>
<td>0.49</td>
</tr>
<tr>
<td>LC</td>
<td>0.06</td>
<td>1</td>
<td>0.06</td>
<td>0.11</td>
</tr>
<tr>
<td>Moralre.</td>
<td>0.46</td>
<td>1</td>
<td>0.46</td>
<td>0.84</td>
</tr>
<tr>
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<td>1</td>
<td>3.85</td>
<td>7.04</td>
</tr>
<tr>
<td>Indiv/Col.</td>
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<td>1</td>
<td>3.85</td>
<td>7.04</td>
</tr>
<tr>
<td>Explained</td>
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<td>3</td>
<td>1.86</td>
<td>3.40</td>
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<tr>
<td>Residual</td>
<td>66.75</td>
<td>122</td>
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<tr>
<td>Total</td>
<td>72.33</td>
<td>125</td>
<td>0.58</td>
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</tbody>
</table>

Note:
F - First statement about codes
S - Second statement about codes
* Both unpurged and purged samples are shown here
both government imposed and company imposed formalization were tested next for the possible moderating influences of CMD and LC. Two statements were used to measure managerial perceptions regarding the formalization of ethics in organizations; one asked about "company imposed" rules and the other inquired about "government imposed" regulations.

Table 24

ANCOVA to Test Whether the Relationship Between Power Distance and Managers’ Perceptions Regarding the Influence of Referent Groups (Peers vs. Supervisors) is Moderated by Moral Reasoning and Locus of Control

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>Sum of Squares</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig. of F</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Unpurged Covariates</td>
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<td>2</td>
<td>0.34</td>
<td>0.32</td>
<td>.73</td>
</tr>
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<td></td>
<td>0.47</td>
<td>1</td>
<td>0.34</td>
<td>0.44</td>
<td>.51</td>
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<tr>
<td></td>
<td>0.19</td>
<td>1</td>
<td>0.19</td>
<td>0.18</td>
<td>.67</td>
</tr>
<tr>
<td>Main Effects</td>
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<td>1</td>
<td>2.58</td>
<td>2.43</td>
<td>.12</td>
</tr>
<tr>
<td></td>
<td>2.58</td>
<td>1</td>
<td>2.58</td>
<td>2.43</td>
<td>.12</td>
</tr>
<tr>
<td>Explained</td>
<td>3.99</td>
<td>3</td>
<td>1.33</td>
<td>1.25</td>
<td>.29</td>
</tr>
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<td>Residual</td>
<td>175.27</td>
<td>165</td>
<td>1.06</td>
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</tr>
<tr>
<td>Total</td>
<td>179.25</td>
<td>168</td>
<td>1.06</td>
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<td></td>
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<tr>
<td>* Purged Covariates</td>
<td>0.41</td>
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<td>0.20</td>
<td>0.18</td>
<td>.84</td>
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<tr>
<td></td>
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<td>0.01</td>
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<td>.94</td>
</tr>
<tr>
<td></td>
<td>0.39</td>
<td>1</td>
<td>0.39</td>
<td>0.34</td>
<td>.56</td>
</tr>
<tr>
<td>Main Effects</td>
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<td>.74</td>
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<td>0.13</td>
<td>1</td>
<td>0.13</td>
<td>0.11</td>
<td>.74</td>
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<td>Explained</td>
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<td>0.24</td>
<td>0.21</td>
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<td>124</td>
<td>1.16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>144.72</td>
<td>127</td>
<td>1.14</td>
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</tr>
</tbody>
</table>

Note: Both unpurged and purged samples are shown here.

In order to test for the moderating effect of CMD and LC, MANOVA was used. As Table 25 indicates, moral reasoning level had a moderating effect on company imposed formalization at an alpha of .05 (t = 2.14, Significance of
t = .03). Since this result was significant, ANOVA with Bonferroni comparison test was performed to see the statistical significance of the responses of the three groups. Results revealed that managers who reasoned at the first CMD level wanted additional company imposed formalization. But CMD level did not show any moderating influence on government imposed formalization. Managers' locus of control did not moderate their perceptions regarding formalization of ethics in organizations. The results of these tests are summarized in Table 25.

Table 25

MANCOVA to Test Whether the Relationship Between Uncertainty Avoidance and Managers' Perceptions Regarding the Formalization of Ethics is Moderated by Moral Reasoning and Locus of Control

<table>
<thead>
<tr>
<th>Test Name</th>
<th>Value</th>
<th>Approx. F</th>
<th>Hypo. DF</th>
<th>Error DF</th>
<th>Sig. of F</th>
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</thead>
<tbody>
<tr>
<td>* Unpurged</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pillais</td>
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<td>1.43</td>
<td>4.00</td>
<td>326.00</td>
<td>.22</td>
</tr>
<tr>
<td>Hotellings</td>
<td>0.03</td>
<td>1.43</td>
<td>4.00</td>
<td>322.00</td>
<td>.23</td>
</tr>
<tr>
<td>Wilks</td>
<td>0.97</td>
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<td>4.00</td>
<td>324.00</td>
<td>.22</td>
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<td>Roy's</td>
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Effect...Within+ Residual Regression
Univariate F-tests with (2, 163), D. F.

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<thead>
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<th>Variable</th>
<th>H. SS</th>
<th>H. MS</th>
<th>F</th>
<th>S of F</th>
<th>B</th>
<th>Beta</th>
<th>t-value</th>
<th>S of t</th>
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<tr>
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<td>-.01</td>
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<td>2.14</td>
<td>0.034</td>
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<td>1.22</td>
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</tr>
<tr>
<td>LC</td>
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<td>-0.07</td>
<td>-1.01</td>
<td>0.31</td>
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<td>0.09</td>
<td>1.23</td>
<td>0.22</td>
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</tbody>
</table>
* Purged

Pillais 0.03 1.11 4.00 248.00 .35
Hotellings 0.03 1.11 4.00 244.00 .35
Wilks 0.97 1.11 4.00 246.00 .35
Roys 0.03

Effect ...Within+ Residual Regression
Univariate F-tests with (2, 124), D. F.

<table>
<thead>
<tr>
<th>Variable</th>
<th>H. SS</th>
<th>H. MS</th>
<th>F</th>
<th>S of F B  Beta</th>
<th>t-value</th>
<th>S of t</th>
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(Covariate)
LC
Moralre.

<table>
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<th>Government</th>
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<th>1.14</th>
<th>.16</th>
<th>.85</th>
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</table>

(Covariate)
LC
Moralre.

Note: Both unpurged and purged samples are shown here
* Unpurged (S = 2, M = -1/2, N = 80)
  Purged (S = 2, M = -1/2, N = 60 1/2)

The premises of hypothesis 5.A and 5.B that investigated the relationship between the cultural dimension of masculinity and managerial perceptions regarding the explicit and implicit methods of institutionalizing ethics were investigated next. The last segment of hypotheses six & seven investigated whether CMD and LC moderated the relationship between masculinity and managerial perceptions regarding explicit and implicit methods by which organizations institutionalize ethics. As indicated in Table 26, the explicit forms of institutionalizing ethics were operationalized using six statements. MANCOVA was used to analyze if CMD and LC had any moderating effects on the relationship between the cultural dimension of masculinity
and the six statements about explicit forms. The analysis revealed that CMD and LC did not have any moderating effect on managers' perceptions of explicit methods of institutionalizing ethics. The results are shown in Table 26.

**Table 26**

MANCOVA to Test Whether the Relationship Between Masculinity and Managers' Perceptions Regarding the Explicit Methods of Institutionalizing Ethics is Moderated by Moral Reasoning and Locus of Control

<table>
<thead>
<tr>
<th>Test Name</th>
<th>Value</th>
<th>Approx. F</th>
<th>Hypo. DF</th>
<th>Error DF</th>
<th>Sig. of F</th>
</tr>
</thead>
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<tr>
<td>Pillais</td>
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<td>12.00</td>
<td>318</td>
<td>0.57</td>
</tr>
<tr>
<td>Hotellings</td>
<td>0.07</td>
<td>0.87</td>
<td>12.00</td>
<td>314</td>
<td>0.57</td>
</tr>
<tr>
<td>Wilks</td>
<td>0.94</td>
<td>0.90</td>
<td>12.00</td>
<td>316</td>
<td>0.57</td>
</tr>
<tr>
<td>Roys</td>
<td>0.04</td>
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</table>

Effect ...Within+ Residual Regression
Univariate F-tests with (2, 163), D. F.

<table>
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<tr>
<th>Variable</th>
<th>H. SS</th>
<th>H. MS</th>
<th>F</th>
<th>S of F</th>
<th>B</th>
<th>Beta</th>
<th>t-value</th>
<th>S of t</th>
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<td>0.76</td>
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<td>-0.06</td>
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<td>0.97</td>
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<tr>
<td>LC</td>
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<td></td>
<td></td>
<td></td>
<td>-0.21</td>
<td>-0.08</td>
<td>-1.07</td>
<td>.29</td>
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<td>0.03</td>
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<td>0.01</td>
<td>0.09</td>
<td>0.93</td>
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<tr>
<td>LC</td>
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<td>0.16</td>
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</tr>
<tr>
<td>LC</td>
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<td></td>
<td></td>
<td>-0.21</td>
<td>-0.09</td>
<td>-1.19</td>
<td>0.23</td>
</tr>
<tr>
<td>Moralre.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.01</td>
<td>-0.10</td>
<td>-1.23</td>
<td>0.22</td>
</tr>
</tbody>
</table>
Seven statements were used to operationalize managerial perceptions regarding the implicit forms of institutionalizing ethics. MANCOVA was used to test whether the relationship between the cultural dimension of
masculinity and managerial perceptions regarding implicit forms was moderated by managers' CMD and LC. As shown in Table 27, CMD did not moderate the relationship between masculinity and managerial perceptions regarding any of the seven implicit methods, whereas LC moderated the relationship in two of the seven implicit methods. The relationship between masculinity and the implicit methods of leadership (t = -2.34; p-value = .02) and management support (t = -2.94; p-value = .00). Based on these results, t-tests for independent samples were performed for these variables to see the mean values of the two LC groups. These t-tests revealed that the mean value of LC 1 group for the leadership variable is 1.69 and LC 2 group is 1.44 (t=2.17, two-tailed p-value = .03); the mean value of the LC 1 group for the management support variable is 1.66 and LC 2 group is 1.37 (t= 2.59; two-tailed p-value = .01). Thus managers with an internal locus of control agreed more strongly than managers with an external locus of control with the statements that leadership and top management support are crucial in raising the ethical climate of organizations.

Table 27
MANCova to Test Whether the Relationship Between Masculinity and Managers' Perceptions Regarding the Implicit Methods of Institutionalizing Ethics is Moderated by Moral Reasoning and Locus of Control

<table>
<thead>
<tr>
<th>Test Name</th>
<th>Value Approx.</th>
<th>F (Hypo. DF)</th>
<th>Error DF</th>
<th>Sig. of F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pillais</td>
<td>0.07</td>
<td>0.82</td>
<td>14.00</td>
<td>318</td>
</tr>
<tr>
<td>Hotellings</td>
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<td>0.82</td>
<td>14.00</td>
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</tr>
<tr>
<td>Wilks</td>
<td>0.93</td>
<td>0.93</td>
<td>14.00</td>
<td>316</td>
</tr>
<tr>
<td>Roys</td>
<td>0.06</td>
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<td>H. MS</td>
<td>F</td>
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<tr>
<td>Reward (Covariate)</td>
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<td>Moralre.</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Promotion (Covariate)</td>
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<td>0.16</td>
<td>0.14</td>
<td>.88</td>
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<tr>
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<td>LC</td>
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<td>Moralre.</td>
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<tr>
<td>Performance (Covariate)</td>
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<td>0.22</td>
<td>0.15</td>
<td>0.87</td>
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<td>LC</td>
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<td></td>
<td>Moralre.</td>
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<tr>
<td>CCulture (Covariate)</td>
<td>1.51</td>
<td>0.76</td>
<td>1.43</td>
<td>0.24</td>
</tr>
<tr>
<td></td>
<td>LC</td>
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<td></td>
<td>Moralre.</td>
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<tr>
<td>Communicat. (Covariate)</td>
<td>0.32</td>
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<td>0.41</td>
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<td></td>
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<td></td>
<td>Moralre.</td>
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<td></td>
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<tr>
<td>Leadership (Covariate)</td>
<td>2.13</td>
<td>1.07</td>
<td>3.14</td>
<td>0.05</td>
</tr>
<tr>
<td></td>
<td>LC</td>
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<td></td>
<td>Moralre.</td>
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<td></td>
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<tr>
<td>MGMTsupport (Covariate)</td>
<td>2.88</td>
<td>1.44</td>
<td>4.69</td>
<td>0.01</td>
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<tr>
<td></td>
<td>LC</td>
<td></td>
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<tr>
<td></td>
<td>Moralre.</td>
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</tbody>
</table>

* Purged

| Pillais          | 0.11  | 1.01  |     | 14.00 | 238  | 0.44 |
| Hotellings       | 0.12  | 1.04  |     | 14.00 | 234  | 0.42 |
| Wilks            | 0.88  | 1.02  |     | 14.00 | 236  | 0.43 |
| Coys             | 0.10  |       |     |       |      |      |

Effect ...Within+ Residual Regression
Univariate F-tests with (2, 164), D. F.

<table>
<thead>
<tr>
<th>Variable</th>
<th>H. SS</th>
<th>H. MS</th>
<th>F</th>
<th>S of F</th>
<th>B</th>
<th>Beta</th>
<th>t-value</th>
<th>S of t</th>
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<tbody>
<tr>
<td>Reward (Covariate)</td>
<td>0.37</td>
<td>0.18</td>
<td>0.14</td>
<td>0.87</td>
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<td></td>
<td>LC</td>
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<td></td>
<td>-.06</td>
<td>-.02</td>
<td>-0.24</td>
<td>0.81</td>
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<td>Moralre.</td>
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<td></td>
<td></td>
<td>0.00</td>
<td>0.04</td>
<td>0.47</td>
<td>0.64</td>
</tr>
<tr>
<td>Promotion (Covariate)</td>
<td>0.26</td>
<td>0.13</td>
<td>0.14</td>
<td>.87</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>LC</td>
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<td></td>
<td>-.06</td>
<td>-.02</td>
<td>-0.27</td>
<td>0.78</td>
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</tbody>
</table>
In summary, the results of this study do not seem to support the hypotheses regarding the moderating effects of CMD and LC on managerial perceptions regarding the institutionalization of ethics in organizations. The data indicated only a weak moderating effect of CMD regarding the premises of hypothesis four and LC regarding the premises of hypothesis five. In all the other instances, LC and CMD had no moderating effects. Thus, hypotheses six and seven are not supported.
Summary of Hypotheses Testing

The summary of the various hypotheses tested in this research effort is described in this section. Each hypothesis is stated first and then, the appropriate result is given.

Hypothesis One: Supported
H1: "Indian managers are more likely than U.S. managers to perceive that codes of ethics will have a greater impact on ethical behavior in organizations." This hypothesis is supported.

The statistical analyses found that Indian managers perceived that codes of ethics would have a greater impact on ethical behavior in organizations than did American managers.

Hypothesis Two: Supported
H2: "Indian managers are more likely than U.S. managers to perceive that they take their ethical cues from their supervisors." This hypothesis is supported.

The statistical analysis showed that Indian managers were more likely to perceive that they take their ethical cues from their supervisors than were American managers.
Hypothesis Three: Supported

H3: "Indian managers are less likely than U.S. managers to perceive that they take their ethical cues from their peers." This hypothesis is supported.

The analysis showed that Indian managers were less likely than American managers to perceive that they take their ethical cues from their peers.

Hypothesis Four: 4.A Not Supported; 4.B. Supported

H4.A: "The majority of Indian managers will oppose the idea that greater formalization is needed to institutionalize ethics in organizations." This hypothesis is not supported by the results of the statistical analysis.

In fact, the results suggest the contrary; they indicate that the majority of Indian managers favored greater formalization to institutionalize ethics in organizations.

H4.B.: "The majority of U.S. managers will oppose the idea that greater formalization is needed to institutionalize ethics in organizations." This hypothesis is supported.

The results of the statistical test indicate that the majority of American managers opposed greater formalization.
Hypothesis Five: Both 5.A and 5.B. are Supported

5.A "The majority of Indian managers will perceive that implicit forms of institutionalizing ethics will have a greater influence on raising the ethical climate of corporations than explicit forms of institutionalizing ethics." This hypothesis is supported.

5.B. "The majority of U.S. managers will perceive that implicit forms of institutionalizing ethics will have a greater influence on raising the ethical climate of corporations than explicit forms of institutionalizing ethics." Results support this hypothesis.

The statistical analyses found that the majority of managers from both countries perceived that implicit forms of institutionalizing ethics would have a greater impact on the ethical behavior in organizations than explicit forms of institutionalization.

Hypothesis Six: Not Supported

The sixth hypothesis which stated that the managers' level of cognitive moral development moderates the relationship between culture and their perceptions regarding the institutionalization of ethics was not supported.

The statistical analysis did not show that the level of moral development had a moderating effect on Indian and American managers' perceptions regarding the institutionalization of ethics in organizations.
Hypothesis Seven: Not Supported

The seventh hypothesis—managers' locus of control moderates the relationship between culture and their perceptions regarding the institutionalization of ethics—was not supported.

The various statistical analyses did not find any moderating effect of locus of control on managerial perceptions.

Chapter Summary

The results of this research effort are summarized in this chapter. Seven hypotheses were tested for this study; two hypotheses had subsections. Five out of the seven hypotheses were supported by the statistical test results; one of the subsections of a hypothesis was not supported by statistical analysis. The discussion and implications of these test results are presented in the next chapter.
CHAPTER V
CONCLUSIONS, DISCUSSIONS, AND RECOMMENDATIONS

Introduction

The purpose of this chapter is three-fold: to summarize the study on managerial perceptions, to discuss the conclusions, limitations, and ramifications of the research, and to discuss future research directions. Table 28 on the next page provides a snapshot summary of the findings of the study, which is summarized in the first section of the paper.

Summary of the Study

Ethics, primarily a philosophical and theological concern, is gaining wide-spread attention in business literature. As corporations, especially multinationals, become bigger and more powerful, they affect the lives of thousands of people. So it becomes important that attention is paid to the way these corporations operate. This is one of the main reasons for the increasing popularity of business ethics as a discipline. A review of the business ethics literature found that there were gaps in two significant areas: cross-cultural issues and institutionalization of ethics issues. Although globalization has become the trend of the 1990s, only very
Table 28
Research Hypotheses and their Results

<table>
<thead>
<tr>
<th>H.#</th>
<th>Hypotheses</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Indian managers will be more likely than U.S. managers to perceive that codes of ethics would have a positive impact on ethical behavior</td>
<td>Supported</td>
</tr>
<tr>
<td>H2</td>
<td>Indian managers will be more likely than U.S. managers to perceive that people take their ethical cues from their supervisors</td>
<td>Supported</td>
</tr>
<tr>
<td>H3</td>
<td>Indian managers will be less likely than U.S. managers to perceive that people take their ethical cues from their peers</td>
<td>Supported</td>
</tr>
<tr>
<td>H4.A</td>
<td>The majority of Indian managers will perceive that greater formalization of ethics is not needed</td>
<td>Not Supported</td>
</tr>
<tr>
<td>H4.B</td>
<td>The majority of U.S. managers will perceive that greater formalization of ethics is not needed</td>
<td>Supported</td>
</tr>
<tr>
<td>H5.A</td>
<td>The majority of Indian managers will perceive that implicit forms of institutionalizing ethics are more important than explicit forms</td>
<td>Supported</td>
</tr>
<tr>
<td>H5.B</td>
<td>The majority of U.S. managers will perceive that implicit forms of institutionalizing ethics are more important than explicit forms</td>
<td>Supported</td>
</tr>
<tr>
<td>H6</td>
<td>Managers' moral reasoning will moderate their perceptions regarding the institutionalization of ethics</td>
<td>Not Supported</td>
</tr>
<tr>
<td>H7</td>
<td>Managers' locus of control will moderate their perceptions regarding the institutionalization of ethics</td>
<td>Not Supported</td>
</tr>
</tbody>
</table>

Few studies have investigated the influence of national culture on business ethics issues. Similarly, although the institutionalization of ethics has become popular in corporate America, there is a lack of research regarding managerial perceptions regarding this institutionalization. The issues of institutionalization of ethics and cross-cultural perspectives are addressed in this research.
This study, "Institutionalization of Ethics: A Cross-Cultural Perspective," investigates the influence of culture on managerial perceptions regarding the institutionalization of ethics in organizations. More specifically, it investigates whether Hofstede's cultural dimensions of individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity have any impact on the perceptions of U.S. managers and Indian managers regarding both implicit and explicit methods of institutionalizing ethics. This research also looks at the moderating effects of two variables—moral reasoning level and locus of control—on managerial perceptions regarding such institutionalization. The sample for the research came from 130 U.S. multinational companies that have operations in India. Marketing managers and human resource managers of the parent company and the subsidiary are the participants of the study.

The first cultural variable under examination is the individualism/collectivism dimension and its relationship to managerial perceptions regarding codes of ethics, the most widely used method of institutionalizing ethics in organizations. This study looks at whether Indian managers, members of a collectivist country, are more likely to perceive that codes of ethics have a greater impact on ethical behavior in organizations than do American managers, members of an individualistic culture. Earlier research
(e.g., Becker & Fritzsche, 1987; Dolecheck & Dolecheck, 1987; Vitell et al., 1993) on cross-cultural differences indicated that members from collectivist cultures would be more susceptible to group influences than members of individualist countries.

Another cultural variable under investigation is power distance; this research investigates whether power distance has an influence on people's response to reference groups. This study examines whether Indian managers, members of a high power distance culture, look to their supervisors for ethical guidance more so than managers from America, a low power distance culture. Similarly, it also examines whether managers from the high power distance country, India, will look up to their peers for ethical guidance less so than American managers, members of a low power distance culture. Some studies (e.g., McDonald & Zepp, 1988; Zabid & Alsagoff, 1993) attest to the hypothesis that depending upon the power distance dimension of the cultures in question, the influence of various reference groups varies.

This research effort also investigates the influence of uncertainty avoidance on managerial perceptions by examining whether managers from the two low uncertainty avoidance cultures of India and U.S. oppose greater formalization of ethics in organizations. Previous research (e.g., Becker & Fritzsche, Khan & Atkinson, 1987; Ueno & Sekaran, 1992) has shown that low uncertainty avoidance cultures are more
comfortable with unfamiliar situations and do not exhibit the same need for uncertainty reduction behaviors such as increased formalization as do the high uncertainty avoidance cultures.

The last cultural variable under investigation is masculinity/femininity. Based on this dimension, it is hypothesized that both Indian and U.S. managers would rate implicit forms of institutionalizing ethics as more important than explicit forms. Culture is not the only variable that influences people's attitudes and behavior. So it is important that any study that investigates cross-cultural differences rule out factors that may cause rival hypotheses, and ensure that the predicted outcomes are due to the influence of culture alone (Sekaran, 1983). This study, in order to ascertain the validity of the influence of culture, considers the effect of two moderating variables—level of cognitive moral development (CMD) and locus of control—on the relationship between cultural dimensions and managerial perceptions of institutionalization of ethics.

Prior research (e.g., Trevino, 1986; Vitell et al., 1993) has suggested that it is important to look at the moderating influence of CMD on managerial attitudes. Hence, this study examines whether managers' CMD moderates the relationship between cultural dimensions and their perceptions of institutionalization efforts. This study
also looks at the moderating effect of managers' locus of control on their perceptions regarding the institutionalization of ethics in organizations.

Conclusions of the Study

The results of this research indicate that Hofstede's cultural dimensions of individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity influenced managerial perceptions of the institutionalization of ethics in organizations. This study, however, did not find any moderating effects of cognitive moral reasoning level and locus of control on these perceptions of institutionalization.

It was found that the cultural dimension of individualism influenced managerial perceptions. Indian managers, members of the collectivist country, perceived that codes of ethics would have a greater impact on ethical behavior in organizations than did American managers, members of an individualistic culture. Similarly, the cultural dimension of power distance also influenced managerial perceptions. Indian managers, members of a high power distance culture, looked to their supervisors for ethical guidance more so than American managers, members of a low power distance culture. Similarly, Indian managers relied less on their peers than did American managers.
The cultural dimension of uncertainty avoidance did not show the predicted influence on Indian managers’ perceptions regarding the institutionalization of ethics in organizations. In fact, Indian managers, members of a low uncertainty avoidance culture, wanted more formalization to institutionalize ethics in organizations. The suspected reasons for this contradictory finding are given in the discussion section of this chapter. American managers, members of a low uncertainty avoidance culture opposed greater formalization in organizations. Both groups of managers—Indian and American—perceived that the implicit forms of institutionalizing ethics are more important than the explicit forms of institutionalizing ethics. This showed the influence of masculinity/femininity dimensions; both the countries are masculine countries.

The two moderating variables—the level of cognitive moral reasoning development and locus of control—did not show any overall moderating effect on managers’ perceptions of institutionalizing ethics in organizations. There was some indication, however, that managers’ cognitive moral development moderated the cultural dimension of uncertainty avoidance and their perceptions regarding company imposed formalization in organizations. Similarly, although locus of control did not show any overall moderating influence in the relationship between cultural dimensions and managerial perceptions regarding the institutionalization of ethics in
organizations, it should be noted that it influenced managerial perceptions regarding the importance of the implicit forms of leadership and top management support.

Significance of the Results

The conclusions of the study and the implications of these conclusions are described in this section. In order for a meaningful discussion of the results, it is important that we first address the limitations of the research. So, this section begins with the limitations.

Limitations

Before discussing the conclusions of the study, it is important to point out the limitations of this research. The first limitation is that this is a "perception" study, which looks at people's perceptions rather than their behavior. Hence, this study has all the limitations inherent in a "percept-percept" study. Percept studies measure perceptions and use these perceptions to predict behavior; but, there may be a lack of consistency between people's perceptions and behavior, because of other intervening variables that affect this relationship. Another limitation is that people's perceptions can be transitory; so, one may get different answers at different points in time. But, this is a common problem with cross-sectional studies and only longitudinal studies can remedy
this situation. Perception studies are common in business ethics literature (e.g., Blevins, Pressley, & Henthorne, 1989; Kraft & Singhapakdi, 1991; Poorsoltan, Amin, & Tootoonchi, 1991), and thus this research effort is not an exception to the norm.

The second limitation is the scope of this research: it would have been more enlightening to study managers from a number of different countries to look at the effect of the four cultural dimensions rather than to study managers from just the two cultures of India and U.S. But, financial constraints, time, and operational difficulties prevented me from doing a larger multi-country study.

The third limitation of the study is the response rate. Although the response rate exceeded the number required by the power analysis, the rate at 37.83% is well below the 50% survey response rate recommended by some researchers. The fourth limitation is the gender bias which may be involved in the study. Even though unintentional, through sample selection—by choosing top managers from corporate and subsidiary levels—a male bias was introduced into the study. Women were a minority in my sample since there are very few women in top positions in the chosen organizations; hence, only 9.83% of the respondents are women. I wonder if I would have received a different perspective from women on the issue of institutionalization of ethics. The fifth limitation is that the sample consists only of managers.
Again, non-management employees may have had a different opinion/perception regarding the institutionalization of ethics in organizations; this potential difference in perceptions between managerial and non-managerial employees is not captured by this study.

The sixth limitation pertains to internal validity threats. The high inconsistency rate and the high M score of the DIT resulted in a purged sample which was considerably smaller in size than the non-purged sample. The percentage of the sample lost due to this purge process exceeds the normal purge rates pointed out by Rest (1988). This may have been due to the length of the questionnaire; respondent fatigue also may have played an important factor here.

Another limiting factor that needs to be mentioned in any business ethics research is the potential social desirability bias that may be involved in the research. As researchers Randall and Fernandez (1991) point out: "due to the sensitive nature of ethics research, the presence of a social desirability response bias may pose an even greater threat to the validity of findings in ethics research than in more traditional organizational behavior research topics." Even though I had taken steps to minimize this bias by assuring the confidentiality of the responses, by pointing out that there are no right or wrong answers, and by imploring the respondents to be candid, it is still
possible for this study to have the internal validity threat of social desirability bias.

This study, as all studies that rely on self-reports, has the validity problem of common method variance. As Podsakoff & Organ (1986) point out, when a single questionnaire is used to measure two or more variables and the attempt is made to interpret any correlations among them, any defect in the source contaminates all the variables involved, possibly "in the same fashion and in the same direction." But given the nature of my research, it was impossible for me to use multiple methods for my data collection and so I hope that the benefits of using self-reports for this study outweigh the problems associated with them. In addition, by pilot testing the instrument and making necessary modifications based on the pilot study, I minimized the measurement problems associated with my questionnaire and increased its construct validity. The reliability and validity issues that were discussed in Chapter III also act as limiting factors.

Discussion and Implications

This research is significant for several reasons. As discussed in Chapter I, this study has ramifications for three areas of management—international, organization
theory, and strategy/policy. First, I would like to discuss the study’s importance to the field of international management.

An understanding of various cultures is crucial to the study of international management due to the fact that cultural dimensions impact behavior in organizations (Hodgetts & Luthans, 1994). By many accounts (e.g., Agarwal, 1993, Smith, 1992, Ueno & Sekaran, 1992), Hofstede’s (1980, 1991) research on culture’s consequences on work behavior is one of the classics in cross-cultural management. This study validates the seminal work of Hofstede regarding the importance of the four cultural dimensions and the influence of these dimensions on employee attitudes.

Of the four cultural dimensions—individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity—almost all the dimensions influenced managerial perceptions regarding institutionalization of ethics in organizations. In fact, the only hypothesis that was not supported was the influence of uncertainty avoidance on Indian managers’ perceptions. Based on the fact that India is a low uncertainty avoidance culture, it was argued that Indian managers would oppose greater formalization regarding the institutionalization of ethics. This argument, although consistent with the findings of researchers such as Khan and Atkinson (1987),
Becker and Fritzsche (1989), and Ueno and Sekaran (1992), was not supported by this research.

Several factors may have contributed to this contradictory finding. The most important of which is the recent proliferation of ethical scandals in India, several of which involved high profile companies and government organizations. Examples of these scandals include the Bombay Stock Exchange Scandal and the bribery and kickback allegations against federal and some state governments. The American multinational, Citibank, was involved in the Bombay Stock Exchange Scandal, which resulted in a government fine—one of the biggest fines in dollar amounts—against Citibank.

High profile incidents such as this that involve ethical impropriety may have contributed to the perception that greater formalization is needed to institutionalize ethics in organizations. It is also worth mentioning that the Union Carbide incident which involved a U.S. multinational corporation is still fresh in the memories of many Indians.

Another factor may be the lack of ethics codes in many Indian organizations. Although the issue of business ethics has gained widespread popularity in the U.S. as well as in many industrialized countries, it has not yet gained the same momentum in a developing country like India. A disturbing trend is that many multinational companies that
have codes of ethics in their home countries do not have them in their various host countries. For example, this research showed that some of the U.S. multinationals that have codes of ethics in the U.S. do not have them in India. The Indian managers who work for these companies may have known this, and their answers regarding the need for greater formalization may have been influenced by this discrepancy.

A third factor which may have contributed to the finding that Indian managers perceived a greater need for formalization is the dominance of the collectivism dimension over the uncertainty avoidance dimension. India, though a low uncertainty avoidance culture, is still a collectivist country. Indian managers' perception that there is a greater need for formalization may come from the fact that collectivist cultures place greater emphasis on group influences, and so rules such as codes of ethics may be perceived as having the potential to exert a greater influence on groups.

The last factor is the current political climate of India. India, being a newly industrializing country, still does not have as many laws regarding the regulation of businesses as many industrialized countries do. Given the rapid industrialization of India and the number of multinationals that have entered India in the last four years, it is not surprising that many opposition parties, especially the Bharathia Janatha Party, is pushing the
Indian government to enact and enforce tougher regulations regarding commerce and industries. This political rhetoric may have influenced Indian respondents.

Another feature that sets this research apart from many other cross-cultural studies is its effort to ascertain the validity of the influence of culture on institutionalization by examining factors that might provide alternative explanations and may cause rival hypotheses. As the literature review in Chapter II indicated, researchers have suggested that the level of cognitive moral development (CMD) and the type of locus of control (LC) influence people's ethical perceptions, attitudes, and behaviors by influencing the way they process information. This research, before concluding that the differences between the perceptions of Indian managers and U.S. managers are due to the influence of cultural dimensions, examined whether managers' CMD level and LC type influenced their perceptions of institutionalization. As the results indicate, these two variables did not seem to influence managerial perceptions.

The implications of these findings are worth mentioning. The most significant implication is that the differences between the perceptions of the two groups of managers can be attributed to the influence of culture, and culture alone, since the influence of two information processing variables which may have caused rival hypotheses have already been ruled out. It should also be noted that
the relationship between CMD level and managerial perceptions regarding the impact of codes of ethics, though not statistically significant at .05 level, has some practical significance. Managers who used preconventional level of moral reasoning--Level I--were more inclined to perceive that codes were more effective in raising the ethical level of the organization than the other two groups. This is in tune with the premise of Kohlbergian theory that individuals who reason at Level I may interpret rules according to the power of the authority figure who espouses these rules. Since codes are the formal method of institutionalizing ethics in organizations, it is not surprising that Level I managers perceived them to be more significant than the other two groups. Similarly, managers who reasoned at Level I were less inclined than the other two levels to oppose greater company-imposed formalization of ethics in organizations. This finding is statistically significant at .05. This result is consistent with the previous research that people who use Level I reasoning rely more on established policies and procedures for moral guidance.

The findings regarding the influence of LC type should be interpreted based on the fact that all the respondents were managers, who by virtue of their position in the organizational hierarchy, might have had some perceived notions of being in control. It may be possible to get a
different set of answers from non supervisory workers. But, it is interesting to note that managers with internal locus of control thought that leadership and top management support are more important in the successful implementation of any ethics program than managers with external locus of control. This finding is also consistent with the prior findings that internals tend to believe more than externals that interventions can make a difference.

Although this study did not prove the influence of the two moderating variables on managerial perceptions regarding the institutionalization of ethics in organizations, it by no means suggests that the information processing variables of cognitive moral development and locus of control are not useful in studying ethical perceptions and behavior in organizations. In fact, as some of the findings suggested, CMD and LC influence managerial perceptions on certain ethical perceptions. I suspect that the influence of these two variables will be stronger in an experimental setting where we can observe if these variables moderate the relationship between managerial intentions to behave in a certain manner and their actual behavior. It is possible that in a perception study, such as this research, the moderating effect is not easily captured as it would be in a behavioral study.

Next, I would like to discuss the implications of the study for the fields of management theory and strategy.
First of all, this study has re-confirmed the importance of ethical strategy implementation. It shows that companies should follow up their ethical strategy not only with structures such as codes, ombudsperson, and committees, but also with their systems, such as performance evaluation, promotion, and reward, and cultures. This study also reaffirms the important part implicit forms such as corporate culture, leadership, top management support, and communication play in any strategy implementation process.

The "fit" question or the compatibility question (between explicit and implicit forms of institutionalizing ethics) that has been raised by this study is an important one for both organization theory and strategy. It brings up some important questions: how good is an organization’s strategy if that organization does not follow the strategy up with systems, top management support, open communication channels, and culture? How good is strategy formulation for an organization if implementation does not materialize?

Perhaps the most significant contribution of this study is that it validates the importance of what strategy researchers call "strategic fit", i.e., the compatibility between organizational strategy and existing organizational systems, policies, procedures, and culture. The results of this study illustrate the need for an "ethical fit," a fit between an organization’s ethical strategy and its systems, structures, and culture. In other words, the results point
to a "theory of ethical fit" regarding the implementation of ethics programs in organizations. This theory posits that for any institutionalization to be effective, the stated ethical goals, objectives, and strategies of the organization must be compatible with existing policies, structures, systems, procedures, and culture.

Three other implications of the results—organizational memory, organizational justice, and organizational learning—are crucial to the theoretical foundation of the field of organizational theory. The fact that the majority of managers rated the implicit forms of institutionalizing ethics very highly illustrate the important roles of organizational justice and organizational memory in organizations. Walsh and Ungson (1991), in their article on organizational memory, remarked that organizations preserve knowledge of the past through their systems and artifacts. This memory becomes institutionalized over a period of time and guides the activities of the organizations. The importance managers attached to corporate culture, leadership, top management support, communication, and organizational systems support the hypothesis of Walsh & Ungson regarding the importance of organizational memory.

The fact that both Indian and U.S. managers opined that organizational systems such reward, performance, and promotion play an important part in the success of ethics programs attests to importance of the variable of
"organizational justice." Writers such as Greenberg and Bies (1992) and McGovern (1990) argued that "organizational justice" is a concept which can be used to explain people's behavior in organizations, and thus have great relevancy to the field of business ethics. Performance assessment and performance outcomes are important elements in organizational justice. This study shows that people emphasize performance measures (performance evaluation) and performance outcomes (rewards & promotion), and that any successful strategy implementation effort should emphasize measurement.

The importance of organizational learning is also reenforced by the study. The results of the study indicate that people learn vicariously from others in organizations. This can be gleaned from the managerial perception that leadership and organizational culture are pertinent to the success of ethics programs. The importance managers attached to top management support and peer behavior is also another indicator of organizational learning. The significance of open communication channels in organizational learning is also proven by this study. It should be noted that the concepts of organizational memory and organizational learning are intertwined.

Another implication of the study is the pivotal role of organizational communication in shaping the ethical climate of organizations. As the results of the study indicated,
both Indian and U.S. managers opined that open communication channels are essential for promoting ethics in organizations. This is a reaffirmation of what Bernard (1938) indicated when he opined "in an exhaustive theory of organization, communication would occupy a central place, because the structure, extensiveness, and scope of the organization are almost entirely determined by communication techniques" (p. 91).

The contributions of this research to the growing knowledge of the field of business ethics should not be overlooked. Three features of the study are worth mentioning in this context: (1) its cross-cultural background; (2) its empirical nature; and (3) its strong foundation in normative theory.

The cross-cultural nature of this study in itself fills a void in the growing body of business ethics literature. As corporations are increasingly conducting their businesses in a number of different countries, it becomes imperative that they understand the ethical climate of these countries (Robertson, 1993); thus, corporate ethics is becoming a global topic (Frederick, 1991). But, as researchers such as Abratt & Nel (1992), Buller et al. (1991), Isreali, (1988), and Nyaw & Ng (1994) point out, there is a lack of cross-cultural studies in business ethics. This study helps fill this void.
As indicated in Chapter I, it is also important to note that there is a significant difference between this study and the other few cross-cultural studies (e.g., Akaah, 1990; Lysonski & Gaidis, Swinyard et al., 1990) which have been done in the field: this study involves a developing nation. The selection of India as one of participant countries also deserves attention. Given the fact that the new, economically "liberal India" has been attracting foreign investment, especially U.S. investment, it is important that more be studied about India and how Indian culture may affect business practices. A list of U.S. companies that have entered India in the last few years include McDonalds, PepsiCo, Coca-Cola, Citibank, GE, Enron, and Ford.

Another distinguishing feature of the study is that it empirically examines a theoretical model which has been proposed by Vitell et al. (1993). Roberston (1993), in her article, Empiricism in Business Research: Suggested Research Directions, indicated that researchers should empirically test the various theoretical models which have been proposed in the discipline in the last few years. One of the criticisms of the literature in business ethics has been that most of the normative theory does not have any practical application and most of the empirical theory does not contribute much to theory building (Robertson, 1993). This study not only tests a theoretical model, but also adds to the foundation of the discipline by proposing a new
theory (i.e., theory of ethical fit) based on the results. Thus, this study brings empiricism and normative theory together. In addition, the implications of the results of this study have great relevance for both academicians and practitioners; the discussion of these implications is given below.

It becomes imperative that academicians give more attention to the implicit forms of institutionalizing ethics in organizations. The results of this study showed that managers, both Indian and U.S., opine that implicit forms of institutionalization of ethics are far more important than explicit forms. But, a review of business ethics literature shows that most research efforts on institutionalizing ethics have focused on codes of ethics and ethics ombudsperson. Even though managers found codes of ethics to be useful in raising the ethical climate in their organizations, they are very cynical of the role of ombudsperson. Of the various forms of institutionalizing ethics in organizations, the ombudsperson ranked the lowest as far as managerial perceptions are concerned.

Practitioners need to make sure that after establishing codes of ethics in their organizations, they need to follow these codes up with ethics training to explain the codes and to show management support. They also need to realize the essence of social learning theory that individuals learn from others in organizations, and hence referent groups play
an important role in defining the realms of acceptable behavior at work for individual employees. In other words, they need to realize that promoting ethical behavior involves leading by example and paying attention to the culture of the organization.

Practitioners should investigate if their explicit ethical strategy, as espoused in their ethics codes, as followed up in their training, as facilitated by their ethics ombudsperson and ethics committees, as popularized by their ethics newsletters fit their cultures and systems. They need to ensure that these explicit programs have top management support. They have to ask themselves the following questions: Is the ethical strategy reflected in our organizational mission? Is it reflected in our goals? Is it reflected in our strategic, tactical, and operational plans? Are we willing to change our measurement systems in order to reflect the importance of ethics? Are we willing to walk the talk?

Practitioners, especially managers of multinational organizations, have to make sure that they address the question of their corporate ethics strategy when they go abroad. Managers need to make sure that ethical values are incorporated into the core cultural values of their organizations. They also need to make sure that some sort of organizational culture ethics audit is performed within the organization to see how various ethical dimensions are
imbibed into their corporate culture. Researchers such as Ferrell and Fraedrich (1994) provide examples of such cultural audits.

In summary, this research has implications for the fields of business ethics, international management, and organizational theory and strategy. It adds to the theoretical foundation of the field of business ethics by bringing empiricism and normative theory together. It empirically tests an existing theoretical model and based on the test results proposes a new theory, thus adding to normative theory. By pointing out the implications for both academicians and practitioners, it furthers the development of the theory base and builds links to managerial applications.

Future Research Directions

This study paves the way for future research efforts in the area of culture's influence on business ethics. Although this study found that various cultural dimensions impact managerial perceptions on the institutionalization of ethics in organizations, it is important to remember that the scope of this research was limited to only two cultures. Researchers should focus on additional countries, thereby expanding the country pool for an in depth study on the relationship between cultural dimensions and institutiona-
lization efforts. Future research should also study industrializing nations.

Other studies should build upon the findings of this study regarding the various implicit and explicit methods of institutionalizing ethics in organizations. As the literature review in Chapter II indicated, among the various methods of institutionalizing ethics in organizations, some methods were popular in literature and some were not; explicit methods tended to be more popular than implicit methods. As this study revealed, practicing managers overwhelmingly emphasized the importance of implicit methods in any effort to institutionalize ethics in organizations. So, future studies should do in depth analysis of each of the implicit methods of institutionalizing ethics—systems, culture, leadership, reference groups, top management support, and communication channels—which was described in this study.

Organizational researchers should study the impact of organizational systems, especially reward, performance evaluation, and promotion, on the ethical behavior of employees in organizations. Of these various systems, only reward system has been given any consideration in the business ethics literature. This research revealed that importance of performance evaluation systems and promotion systems on people's ethical behavior. Future researchers should focus more on the impact of these systems.
The respondents of this study emphasized the importance of organizational culture in shaping the ethical attitudes and behavior of employees. Additional research needs to be done in the area of organizational culture and its influence on employee behavior. Future research on the impact of organizational culture on ethics should focus the various mechanisms by which culture is developed, maintained, and perpetuated in organizations. Some of the mechanisms include orientation, socialization patterns, informal norms, slogans, and stories of the organization.

Another area that needs additional research is the influence of referent groups on employee behavior. Efforts should be made not only to study how various referent groups, such as peers and supervisors influence employees, but also the process by which employees choose one group versus the other as their primary influence mechanism.

Attempts should also be made to study the influence of top management support and commitment to the successful implementation of corporate ethics programs. An area worthy of future examination in this regard is the relationship between corporate ethical strategy, as manifested in an organization's code of ethics, and its policies, procedures, and structures. In order to determine top management support for ethics programs, it would be interesting to examine the content of various organizational statements. For example, it would be interesting to do a content
analysis of the mission statements of the organizations which have codes of ethics to see if the concern for ethics is reflected in their corporate mission statements. It would also be interesting to study organizations to see whether they have changed their measurement systems after the implementation of their new ethical strategy so that the systems reflect the emphasis on ethics.

Given the importance of organizational communication in the implementation of ethics programs, it is important that future studies in business ethics examine this topic. Research on organizational communication channels should focus not only on the characteristics—formal or informal, open or closed—of the channels, but also on the various characteristics—size, structure, and technology—of the organization itself.

Another avenue for future study is the area of ethics training. The literature review in Chapter II revealed that there is not much information on the various ethics training methods. Managers who participated in this study attested to the importance of ethics training in the successful implementation of any ethics strategy in organizations. So researchers should focus on how organizations provide their employees with ethics training. The content, the materials, and the methodology of ethics training should be investigated.
As the results of this study revealed, managers from both countries did not perceive ethics officers and ethics committees to be effective in institutionalizing ethics. This is disturbing when we consider the fact that more organizations are creating such positions to deal with the issue of ethics. Researchers should further investigate managers' negative perceptions of these methods. If the root cause of the problem is implementation, then something needs to be done to fix it; if not—if these structural responses are simply not effective—then, organizations need to rethink how they spend their precious dollars.

Chapter Summary

This research, Institutionalization of Ethics: A Cross-Cultural Perspective, found that the cultural dimensions of individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity influenced Indian managers and U.S. managers' perceptions regarding the institutionalization of ethics in organizations. The results of the study have significant implications not only for management disciplines such as international management, organization theory and policy, and business ethics, but also for management practitioners. The study concludes with future research directions.
APPENDIX

COVER LETTERS AND QUESTIONNAIRE
March 8, 1995

Manager
XYZ Corporation
City, State, Zip

How would you like to help out a doctoral student complete her
dissertation and at the same time contribute something to Corporate
America?

My name is Anita Jose. I am a doctoral student at the University of
North Texas who is currently working on her dissertation. My
dissertation is titled, Institutionalization of Ethics: A Cross-Cultural
Perspective. The purpose of my dissertation is to study managerial
perceptions regarding the various ways by which Corporate America is
trying to institutionalize ethics.

Corporate America, in response to incidents like insider trading
scandals, Exxon Valdez oil spill, and Bhopal gas tragedy, has tried to
institutionalize ethics through a variety of structure and procedures
such as codes of ethics, ethics committees, ethics newsletters, and
ethics training. Since you work for a multinational corporation and are
in an important managerial position, you have been specifically chosen
to provide me with your input regarding the various institutionalization
efforts. So, please complete the attached questionnaire and send it
back to me in the enclosed return envelope.

Your responses will be kept totally confidential. I am the only one who
will ever see your individual response. In my dissertation, I will
publish only aggregate responses from the entire group to each of my
questions. I also hope to publish my findings in business publications
so that corporations can modify their institutionalization efforts
depending upon your observations regarding the implementation of ethics
programs.

I really appreciate your help. As a token of my appreciation, please
accept the enclosed $1 bill. If you have any questions or if I may be
of any help, please call me at (301) 696-3690. I have also enclosed my
business card for your information.

Please devote some of your time to provide your input regarding an issue
which is hotly debated throughout the business world. Please remember
that your opinion is invaluable in this matter. Who better to give
input regarding the implementation of ethics programs than you, the
practitioner, the manager, who knows what it takes to implement
decisions successfully? I know that I cannot reimburse you for your
valuable time; but, I promise that I will send you a summary of my
results which sure would be interesting.

Sincerely,
April 5, 1995

Manager
XYZ Corporation
City, State, Zip

Would you like to be one of the twenty managers to help a doctoral student achieve her dreams?

My name is Anita Jose. Yes, you have heard from me before; twice in fact! Hope you received my first letter as well as the post card about my dissertation. I am a doctoral student at the University of North Texas who is currently working on her dissertation which is titled, Institutionalization of Ethics: A Cross-Cultural Perspective. The purpose of my dissertation is to study managerial perceptions regarding the various ways by which Corporate America is trying to institutionalize ethics.

As a strategic management student, the role of ethics and social responsibility in corporate strategy has always fascinated me. So, when I had to choose a topic for my dissertation, I chose to study the implementation considerations of institutionalizing ethics in organizations. I also chose the survey technique as my research methodology understanding fully well how difficult it would be to collect data using the survey method. But I was convinced that if I wanted to study the institutionalization of ethics in organizations, I had to ask you, the manager, the practitioner, about your perceptions regarding the implementation process.

Who better to ask about the practical realities surrounding the success of institutionalization efforts than you, the practitioner? Who better to ask about codes of ethics, ethics committees, ethics hotlines, and ethics training than you, the manager? Who better to ask about the support systems which can help translate corporate ethics strategy from something abstract to something concrete as far as the employees of your organization are concerned than you, the implementor? Who better to give advice regarding the influence of leadership in the institutionalization efforts than you, the leader?

I know that I could never repay you for your effort and your kindness. I can only promise you a copy of my results if you’d be kind enough to participate in the survey. As a management educator, over the years, I have come to the conclusion that the success of business education depends upon open communication channels between management practitioners and educators.

One hundred and twenty managers have responded so far to my survey. In order to complete my dissertation, I require another thirty responses. Would you like to be one of these twenty managers?

Sincerely,

Anita Jose

Enc.
QUESTIONNAIRE

The questionnaire consists of four parts. Part I asks about your outlook on several issues, Part II investigates your perceptions regarding the various efforts which are used by corporations to institutionalize ethics, Part III examines your opinions on general social issues, and Part IV contains questions regarding general demographic information. Part II is the time consuming part, but it is also the most fun. Please take time to answer this questionnaire.

Instructions are given before each part. Please ensure that you answer all the questions. Thank you!

PART I

Rotter's Locus of Control Questionnaire

PART II

Institutionalization of Ethics Questionnaire
(Please refer to pages 239 and 240)

PART III

Defining Issues Test: Opinions About Social Problems

PART IV

The Demographics Section
(Please refer to page 241)
PART II

INSTITUTIONALIZATION OF ETHICS OPINION QUESTIONNAIRE

Please express your agreement or disagreement with each of the following statements.

Circle the number that best represents your opinion. The categories are:

1. Strongly Agree (SA)
2. Agree (A)
3. Neither Agree nor Disagree (N)
4. Disagree (D)
5. Strongly Disagree (SD)

(This sample questionnaire contains only the questions, not the format. The actual format included likert type scale ranges of one to five next to every question.)

1. A code of ethics will raise the ethical level of the company.
2. A code of ethics is easy to enforce.
3. A code of ethics will help employees by clearly defining the limits of acceptable conduct.
4. People will violate the code of ethics whenever they think they can avoid detection.
5. A code of ethics will have a greater impact on the ethical behavior of employees in organizations.
6. If my company had a code of ethics, I would adhere to that code.
7. If my company had a code of ethics, the other employees would adhere to that code.
8. I take my ethical cues more from my supervisors than from my peers.
9. The other employees in my organization take their ethical cues more from their supervisors than their peers.
10. People, in general, look up to the behavior of their supervisors for ethical guidance than they do to their peers.
11. Companies should follow codes of ethics up with ethics training so that employees understand how to apply the codes in specific situations.
12. In order to succeed in today's competitive corporate world, it is necessary to compromise one's ethics.
13. Companies should encourage whistle-blowing or the reporting of unethical behavior if they want to promote morality.
14. Companies should tie ethical behavior to reward system if they want to promote ethical behavior.
15. Companies should tie ethical behavior to performance evaluation system if they want to promote ethical behavior.
16. Companies should tie ethical behavior to promotion policies if they want to promote ethical behavior.
17. Company newsletters on ethical behavior will raise the ethical level of the company.

18. Ethics hotlines (phone lines to ask questions regarding ethical matters) will raise the ethical level of the company.

19. An officer in charge of ethics will raise the ethical level of the company.

20. Ethics committees are helpful in promoting ethical awareness in companies.

21. An ethical corporate culture is essential in producing ethical behavior in employees.

22. Top management support is essential if ethics programs are to be successful in companies.

23. Ethical leadership is essential in promoting ethical behavior in companies.

24. Governments must enforce additional rules and regulations to ensure that companies are being ethical.

25. Companies must enforce more rules and regulations to institutionalize morality.

26. The prevalence of unethical behavior in organizations is due to the lack of ethics codes.

27. Employees will not be inclined to act ethically if being ethical does not translate into recognition, money, or promotion.

28. I take my ethical cues more from my peers than from my supervisors.

29. In most companies, the company code of ethics is nothing but a public relations tool.

30. Being ethical is good for the bottom line of a company.

31. In order for corporate ethics programs to be successful, open communication is essential.

32. Organizations cannot institutionalize morality, because people learn values from home and those values are difficult to change.
Part IV

In this section, please provide some demographic information.

1. My age is:
   a. Under 30    c. 40-49    e. 60-69
   b. 30-39       d. 50-59    f. 70 and above

2. My gender is:
   a. Male    b. Female

3. My nationality is:
   a. U.S.    b. Indian    c. Other
   If you chose other, please specify: ____________________________

4. The number of employees in my organization is:
   a. 1 to 99    b. 100 to 249    c. 250 to 499
   d. 500 to 999    e. 1000 or more

5. My religious affiliation is:
   e. Protestant    f. Sikh    g. No affiliation    h. Other (please specify)

6. My educational background is:
   a. High School    b. Bachelors Degree    c. Masters Degree
   d. Doctorate    e. Went to college, but did not receive a degree
   If you have answered e, please specify the number of years you attended college: ____________________________

7. My annual income is:
   a. Less than $ 40,000    b. $ 40,001 to 60,000    c. $ 60,001 to 80,000
   d. $ 80,001 to 100,000    e. $ 100,001 to 120,000
   f. $ 120,001 to 140,000    g. Above $ 140,000

8. Is there a formal, written code of ethics in your company?
   a. Yes    b. No    c. Don’t know

9. Is there a formal, written code of ethics in your industry?
   a. Yes    b. No    c. Don’t know

10. Is there a formal, written code of ethics in your profession?
    a. Yes    b. No    c. Don’t know

11. My functional area is:
    c. Other
    If you chose other, please specify: ____________________________

THANK YOU FOR YOUR KINDNESS! I REALLY APPRECIATE YOUR HELP. I PROMISE THAT I WILL SEND YOU A COPY OF THE RESULTS IN APPRECIATION OF YOUR HELP.
NOTE

THE TWO STANDARDIZED QUESTIONNAIRES--ROTTER'S LC AND REST'S DIT--ARE COPYRIGHTED MATERIALS. SO, THEY ARE NOT BEING PUBLISHED.
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