

THE INFLUENCE OF COMPANY RULES, ETHICAL CLIMATE, AND INDIVIDUAL CHARACTERISTICS ON SALES REPRESENTATIVE'S HONESTY

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ABSTRACT

This study examined the impact of situational and individual characteristics on sales representatives' propensity to lie or to tell the truth. The situational elements were the honesty of the organisation climate and its formal rules about lying to customers. The individual elements were the participants' degree of Machiavellianism and tolerance for ambiguity. The results indicated that more Machiavellian people were more likely to lie and that they were less guided by the rules than people who were low in this trait. In addition, rules and climate work together for people with a high tolerance for ambiguity in a complex manner.

INTRODUCTION

Ethical behaviour in business continues to receive empirical and theoretical attention that is undoubtedly fuelled by headline news stories such as the Enron accounting practices scandal or Martha

Stewart lying about insider trading. However, while major economic fraud may generate drama, people behave ethically and unethically every day on the job. A recurring theme in the business ethics literature questions the extent to which corporate codes of ethics influence everyday behaviour (Cressey & Moore, 1983; Trevino, Butterfield, & McCabe, 2001). A parallel theme questions the comparative impact on behaviour of personal differences versus structural elements of a situation (Giacalone & Knouse, 1990; Hegarty & Sims, 1978; Trevino & Youngblood, 1990). The present study examines everyday business behaviour by exploring how corporate culture, or expectations, and individual differences influence deception, specifically the situational and individual explanations for why people lie or tell the truth at work.

It is well established in the social science literature that people behave more and less honestly depending on the situation. In fact, Hartshorne and May (1928), in their quest for the dishonest personality, found that most people behaved dishonestly when provided with the opportunity. People in the workplace find themselves facing various circumstances under which they lie. Some contexts, such as a competitive negotiation, place people in a frame of mind that allows them to lie (Boles, Croson, & Murnighan, 2000). Similarly, conflicting demands, or role conflicts, might be resolved to some degree by lying (Grover, 1993b). For example, Grover (1993a) found that nurses were more prone to lying in medical charts when they were faced with conflicting expectations between the physician's orders and nursing obligations, and Schweitzer, Ordóñez, & Douma (2004) found that people lied about their performance when they failed to achieve a difficult goal.

Situational norms influence ethical behaviour, and the organisational studies literature has a history of investigating how norms, or the commonly held group beliefs, shape individual behaviour. Going

by different labels, such as climate, culture, shared beliefs, and social information processing (Enz, 1988; Salancik & Pfeffer, 1978; Schneider, 1975), they share the overarching idea that the attitudes and opinions of people around us influence our ethical actions and beliefs. For example, some automobile dealerships have a collective belief that reinforces the idea that nearly any behaviour is acceptable to closing a deal with a customer, whereas others share a belief that closing the deal should be balanced with humane treatment of the customer.

Research on how shared beliefs affect ethical behaviour is largely based on Victor and Cullen's (1988) ethical climate taxonomy, which classifies the manner in which organisational participants collectively interpret and make sense of ethical issues (Cullen, Parboteeah, & Victor, 2003; Forte, 2004; Fritsche, 2000; Peterson, 2002; Stone & Henry, 2003; Weber & Seger, 2002). However, the impact of various ethical climates is not clear. Trevino, Butterfield, and McCabe (2001) conducted one of the few studies that deeply analysed the impact of ethical context, dividing it into ethical climate and ethical culture. Climate is an informal, attitudinal categorisation of the ethical context. In contrast, culture refers to the artefacts and representations of the ethical beliefs of the company. The distinction between ethical culture and climate helps to interpret how company rules of conduct make a difference. Culture has a manifestation, and it has more of an impact on the observed ethical behaviour in companies that have codes of ethical conduct compared to those that do not have codes. Moreover, it was apparent that companies that had codes were those that promoted honesty and ethics (Trevino et al., 2001). In contrast to culture, ethical climate is comprised of the subjective, shared beliefs about the ethical standing of the company, and has more of an effect in companies that have no code of conduct. Presumably, people working for companies without a code seek social information to decide how to behave ethically or unethically, that is, to decide whether behaviour is ethical or not. Hence, Trevino and her colleagues (2001) found that in the absence of a code of conduct ethical behaviour was related to the climate. The direct impact of culture, codes, or rules on deception has received little empirical attention. An exception is Aquino's (1998) study of purchasing agents, which found that the salience of ethical

standards in an organisation influenced the level of honesty in negotiations.

The present study investigates lying and truth-telling among sales representatives in an organisation. Following Trevino and colleagues' (2001) theory, we expect that both ethical climate and rules influence honesty. The informal climate forms part of the social information that provides people with cues about their own and others' behaviour. This social information tells people about what is acceptable and unacceptable. In a more formal, but related manner, company rules provide concrete information about what is acceptable and unacceptable in the workplace. In the absence of countervailing information, people often make choices of a moral nature based on the formal rules set out by a collective or authority. In terms of Kohlberg's (1969) theory of cognitive moral development, most adults are at the middle, "conventional" level of moral reasoning, in which they are guided by the formal signposts of moral behaviour. Given that formal and informal cues from the environment influence ethical behaviour, it seems reasonable that people are more likely to lie or tell the truth as a sub-category of ethical behaviour based on the cues they observe in their environment, leading to the following hypotheses. Moreover, based on the work of Trevino and her colleagues (2001), the two factors are expected to combine so that people tell the truth most when both the climate and formal rules support honesty.

Hypothesis 1: People will tell the truth more often when the climate supports and endorses truth telling.

Hypothesis 2: People will tell the truth more often when there are formal rules in place that support truth-telling and honesty.

Hypothesis 3: Ethical climate and formal rules will combine such that people are most likely to tell the truth when they are congruent

INDIVIDUAL DIFFERENCES

While situational influences may affect behaviour, people also individually vary in their likelihood of behaving ethically (Giacalone & Knouse, 1990; Trevino, 1986). Individual levels of Machiavellianism account for individual honesty

(Christie & Geis, 1970). The construct is based on Machiavelli's Prince, which is a veritable instruction booklet for a despotic ruler to use virtually any means to an end. People who are highly Machiavellian are less bound by social norms in accomplishing their goals. People who identify highly with the Machiavellian personality are more likely to use lying as a business tool (Ross & Robertson, 2000). However, Machiavellians do not lie in any single instance; rather, they lie when it benefits them to do so. Machiavellians require some cause or reason to lie from which they will benefit. Therefore, Machiavellians react more strongly to work contexts that prompt lying. In general, people are more prone to lie when they are attempting to satisfy difficult goals (Schweitzer et al., 2004). Given that they are trying to satisfy a goal, it seems reasonable to expect that people who are more instrumental in moving toward their goals will be more likely to lie. Machiavellianism is a personality trait that captures this instrumental concept, and, measured as an individual difference, taps the extent to which people believe that the means justify the ends (Christie & Geis, 1970).

Hypothesis 4: People who are more Machiavellian tend to lie more when faced with pressureful demands.

Machiavellianism indicates a tendency to work outside the rules to obtain one's ends, and as such represents a departure from reliance on social norms. It seems reasonable, therefore, that highly Machiavellian people should be less sensitive to environmental cues about ethics than their counterparts who hold this trait less strongly.

Hypothesis 5: The lying behaviour of highly Machiavellian people will be less sensitive to rules and ethical climate compared to people who are low in Machiavellianism.

The manner in which people interpret their environments, specifically the importance of formal rules and ethical information from colleagues, varies from person to person. One personality trait that taps an interesting dimension of this environmental interpretation is tolerance for ambiguity, a trait that reflects how comfortably individuals process ambiguous information. People who have a high tolerance for ambiguity should be able to make moral choices in the absence of environmental cues. Most notably these high tolerance

for ambiguity individuals should be relatively less influenced in their ethical decision making by the existence of formal strictures regarding the ethical issue. For example, a university could have formal rules about what constitutes plagiarism or not have formalised the concept. People with a high tolerance for ambiguity are expected to be more adept at making decisions in the absence of such rules.

Hypothesis 6: The lying behaviour of people high in tolerance for ambiguity will be less influenced by formal rules about lying.

It is less certain how workers at various levels of ambiguity will react to different ethical climates. Again, people who are relatively high in this trait might be more comfortable processing ethical information from their colleagues, because this information by its very nature is ambiguous. As one example, some studies have found that people at higher levels of moral development are more adept at finding their moral way regardless of the situational constraints (Grover, 1993b; Trevino & Youngblood, 1990). On the other hand, people low in tolerance for ambiguity might just be less influenced by the social information because they are not so adept at grappling with this amorphous information. Therefore, we arrive at the following hypothesis.

Hypothesis 7: People high in tolerance for ambiguity will be more influenced in their lying behaviour by social information drawn from the ethical climate than will people low in this trait.

SUMMARY

The hypotheses were tested by operating a work simulation that placed people under pressure, which has led to deceptive behaviour in other studies (Grover, 1993b; Grover & Hui, 1994; Schweitzer et al., 2004). The ethical information about how the company operates was manipulated by providing informal social information through a friend and by manipulating the formal rules under which the company operates. Individual difference variables of tolerance for ambiguity and Machiavellianism were collected.

METHOD

Three hundred twenty-one undergraduates enrolled in an organisational behaviour course in a

Midwestern U.S. university participated in a laboratory experiment. The participants were typically third year students who average 20.6 years of age; 83% were white, 11% Black American, 6% Asian; and 53% were female. The individual differences scales were administered as a survey during a class session to all participants before they participated in the laboratory part of the study. The laboratory portion of the study consisted of an individual management in-basket exercise. The instructions described a robotics manufacturer named Robotron, and described the participants' role of the sales representative. The sales representatives' chief responsibility was described as writing bids in response to requests for bids, and the bidding process and product line were also described. The stimulus materials were an "in box" containing memos, letters, and telephone messages for the participants to read, as well as client summary sheets that told basic information about the clients, and a policy manual. Participants were told that they had forty-five minutes to complete the exercise, that they must prioritize the things they do, and that they must write four memos. The recipients of these four memos were described and the content of the memos used to measure the dependent measure of lying.

The context of the experimental variables concerned an opportunity to mislead a client in order to obtain a sale. The client faxed the participant a letter stating that he was prepared to recommend that the firm's bid be accepted, but needed a delivery date guaranteed in writing. The participant, however, was faced with a dilemma because information from engineering indicated that a critical component (vacuum coupler) for the particular line of equipment was unavailable and the delivery date, which was eight months hence, could not be met without a delay of at least two months. Being complicated, this dilemma was restated to the participant in a note from a friend in another part of the corporation:

"Since Merving (the client) agreed to the delivery date quoted in the bid and now manufacturing can't meet that date, it puts you in a real bind. Are you going to have to promise a delivery date you can't meet in order to finalize the Merving Sale? It would be awful to lose the sale and all that commission after spending six months on the project."

Previous research suggests that this type of conflict provides an opportunity for lying, and therefore an opportunity to study our independent variables (Aquino, 1998; Grover, 1993b; Grover & Hui, 1994; Robertson & Rymon, 2001; Schweitzer et al., 2004).

Independent Variables

Ethical Climate. This variable was manipulated in the memo that was purportedly sent from the participant's friend elsewhere in the corporation. In the Honest condition the letter stated: "This company is so incredibly honest and ethical that it's really a problem in this situation because the norms around here are such that you have to tell the truth." The Dishonest condition stated: "the norms around here are such that it's probably okay to "stretch the truth or not be totally honest." Both these manipulated culture conditions added: "That is just the kind of corporate culture that exists in this place." The third control condition simply made no mention of how the culture might influence the decision.

Rules. The rules manipulation concerned whether there was a formal policy concerning scheduling and delivery dates. In the formal condition the first page of the policy manual described a scheduling and delivery policy. The policy stated that "it is the policy of Robotron and associated companies to provide reliable, accurate, and attainable delivery estimates. Specifically, it stated that "the salesperson should verify delivery dates with engineering and manufacturing BEFORE providing a quote to the customer." The policy was the first to appear in the employee manual in order to bolster the likelihood that participants read the policy. The policy was omitted in the No Formal Rules condition. The rules condition was also incorporated in the memo from the friend along with the Cultures manipulation. In the Formal condition, the friend wrote: "That policy is on the books, just revised, that deception in delivery dates may be grounds for termination," and omitted the sentence in the Control condition.

Individual Difference Variables

Tolerance for Ambiguity. This variable concerns the degree to which individuals make clear distinctions and was measured with Martin and

Westie's (1959) eight item scale. Sample items include: "You can classify almost all people as either honest or crooked," and "there is only one right way to do anything."

Machiavellianism. This variable was measured with a twenty item scale (Christie & Geis, 1970). Sample questions include, "Never tell anyone the real reason you did something unless it is useful to do so." Both individual difference scales were answered on a seven point scale ranging from "strongly agree" to "strongly disagree."

Dependent Variables

The lying items and manipulation checks appeared in a post-experimental questionnaire. Two items measured lying on a seven point scale anchored at "strongly agree" and "strongly disagree." The two items appeared on the first, and separate, page of the post-experimental questionnaire that specifically asked questions about the task of writing the letter to the purchasing agent who could have potentially been deceived. The two questions were: "I told the truth while doing this task, and "I stated the delivery dates honestly to J. Corbin in the memo." (J. Corbin was the purchasing agent.) This self-report measure of honesty focuses on the conscious behaviour of lying, which is of theoretical interest. It measures people's beliefs about their own behaviour as opposed to people who have mistakenly reported the wrong date in the letter. Additionally, honesty is a slippery construct in that there are variations. In this experiment people could write the letter without mentioning either the date or that there is a delay in delivery, or they could hedge on the magnitude of the delay. The dependent variable of theoretical interest was whether the participants believed they were lying or telling the truth.

Manipulation Checks

The manipulation check for ethical climate was "the culture at Robotron dictates that sales representatives tell customers accurate delivery dates," and was answered on a seven point response scale anchored at "strongly disagree" and "strongly agree." The rules manipulation check item stated "this company has rules about honesty," and the seven point response scale was anchored at "completely false" and "completely true."

Manipulation Checks

The analysis of variance of the Rules manipulation check item produced a significant Rules main effect, $F(1,360)=52.35$, $p<.0001$, with the Formal Rules condition being rated higher than the No Formal Rules condition (M 's=5.43 and 4.30). The analysis of the Culture manipulation check also produced a significant effect, $F(2,360)=52.29$, $p<.0001$; the Honest ethical climate was rated as significantly more honest than the Control, which was more honest than the dishonest condition (p 's<.01, M '=5.40, 4.77, 3.35, respectively).

Machiavellianism

The first analysis of lying included the following independent variables: Ethical Climate, (Control, Honest, Dishonest), Rules (Formal Rules, No Formal Rules), and Machiavellianism split at the median. As expected, the analysis produced a significant Machiavellianism effect, $F(2,308)=3.39$, $p<.05$, indicating that those high in Machiavellianism were significantly more likely to lie than those low in the trait (M 's=5.70 and 6.05). The Rules x Machiavellianism interaction was marginally significant, $F(2,308)=2.57$, $p<.08$. However, the means suggest that people who were low in Machiavellianism were influenced by the existence of formal rules. Low Machiavellians were more likely to tell the truth when formal rules were present versus absent (M 's=5.71 and 6.17). In contrast, High Machiavellians were not significantly influenced by the existence of formal rules governing honesty (M 's=5.85 and 5.59). No other effects were significant.

Tolerance for Ambiguity

A similar MANOVA was conducted with tolerance for ambiguity as an independent personality variable. The only significant effect was an Ethical Climate x Rules x Tolerance for Ambiguity interaction, $F(4,616)=3.26$, $p<.02$. This effect was further analysed with simple effect analyses. The simple Ethical Climate x Rules effect was significant for individuals having a high tolerance for ambiguity, $F(4,248)=2.66$, $p<.05$, but not those low on this attribute, $F=1.12$. Furthermore, this

effect was due to differences in the Honest Ethical Climate condition, in which people lied more when there were no formal rules, $F(2,112)=3.75$, $p<.05$. This effect is illustrated in Figure 1. It could be summarized by saying that among the participants with a high tolerance for ambiguity, the combination of formal rules about honesty and an ethical work climate led people to tell the truth more than when there were no formal rules. Conversely, this implies that people with a high tolerance for ambiguity were more likely to lie to a customer when an honest climate was combined with formal rules pertaining to the action. No other effects were significant.

In summary, hypotheses 4 and 5 were supported. Hypotheses 1, 2, 6, and 7 were not supported, but the complex interaction of tolerance for ambiguity, rules, and culture captures some of the elements of those hypotheses in a way explained in the discussion. The nature of these findings, their explanations and implications are discussed in the following section.

DISCUSSION

There are three central findings of this study. The first is that people who are more Machiavellian are

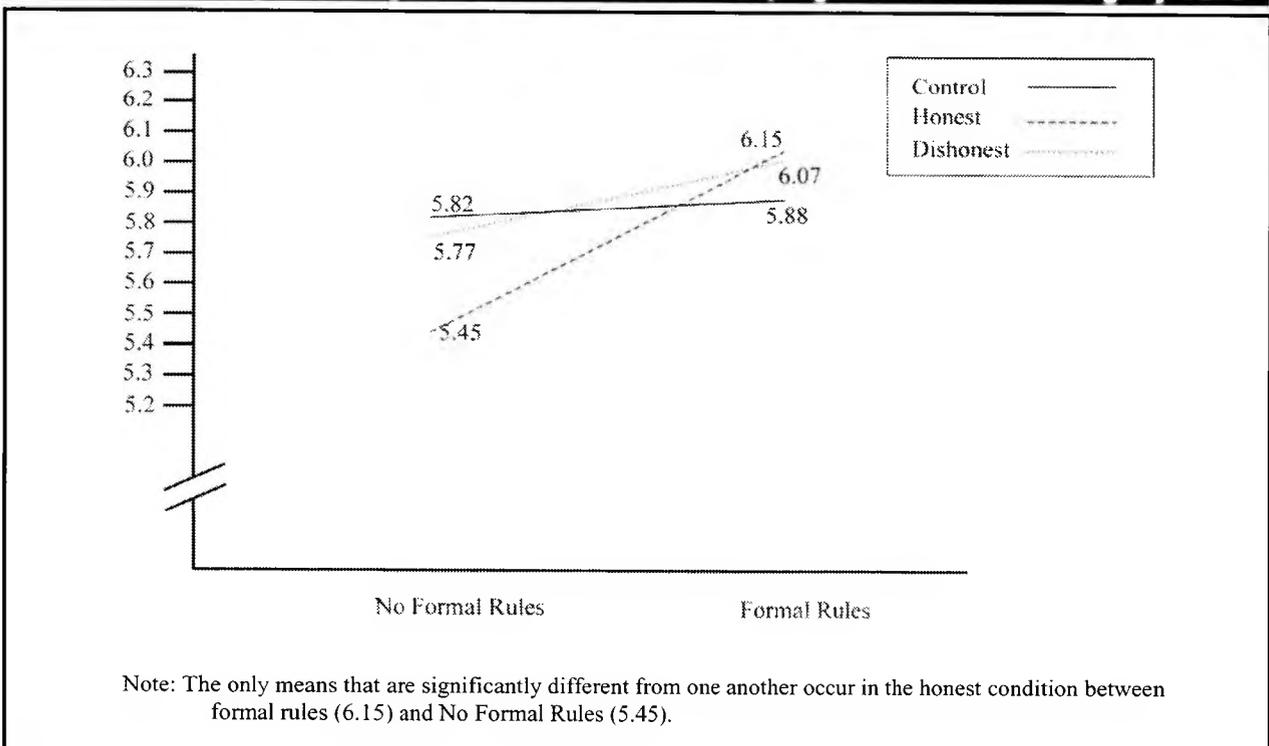
more likely to lie in business. The second is that formal rules against lying seem to affect the honesty of people who are low in Machiavellianism. The third finding is that having consistent rules and climate has an impact on lying behaviour, but only among people comfortable with ambiguity. We will explain and interpret these findings in the context of the non findings and contemporary ethics literature.

Explanations

That people with more Machiavellian tendencies were more likely to lie in order to achieve their objectives is a straightforward example of Machiavellianism at work. To Machiavellians the ends justify the means, because they are much more interested in accomplishing their goals than they are in the morality of the process. Hence, the highly Machiavellian people responded to the pressure of the situation to benefit themselves. Previous research has identified this basic personality trait leading to more dishonesty (Ross & Robertson, 2000; Wardle & Gloss, 1982) and more successful lying (Geis & Moon, 1982; O'Hair, Cody, & McLaughlin, 1981).

More intriguing than the simple finding that

FIGURE 1: Honesty Means by Climate & Rule Orientation, High Tolerance for Ambiguity Case



Machiavellians lie more was how this individual difference was influenced by the situation. People who were highly Machiavellian were not influenced by the rule orientation of the organisation; however, people who were low in the trait told the truth more often when there were formal rules. Machiavellianism is an overwhelming characteristic and people high in this characteristic apparently take little notice of the cues around them. In contrast, people who are not as focussed on achieving their outcomes in a Machiavellian fashion were more honest when the formal rules of the organisation encouraged that honesty. This finding is consistent at a grand level with previous work that has taken the interactionist perspective (Grover, 1993a, 1993b; Trevino, 1986), but extends that perspective to Machiavellianism. Some people are more attuned to their environment or seek cues from the environment to make moral decisions. The present study extends previous work that has shown people at higher stages of moral development are less influenced by situations (Grover, 1993b), as well as those with more internal locus of control (Trevino & Youngblood, 1990).

Our findings concerning the conjoint effect of rules and ethical climate offer contrast to Trevino and colleagues' (2001) findings concerning how formal structures and culture work together. They found more ethical behaviour when codes of ethics and culture were consistent, that people first look to rules to guide their ethical decisions, and in the absence of clear guidance people look to their environment for cultural cues about acceptable behaviour. Our findings shown in Figure 1 support this first part of their claim: In the presence of formal rules there was no significant difference among the different culture conditions. Formal rules seem to take precedence in their effect on ethical behaviour. However, our findings ran contrary to Trevino and colleagues' (2001) second assertion, that we secondarily look to social cues. In the honest climate conditions people lied more when there were no formal rules. This is a querulous finding: that people are less honest than the culture suggests that they should be. Our post-hoc speculations concerning this finding is consistent with other findings reported by Grover (2005). This speculation is that creating structures that attempt to impose cultural constraints on dishonesty might simply drive the dishonesty below the surface. Aquino and his colleagues (2004) found

in a negotiation study that people lied just as frequently in a strongly honest normative culture, but yet they subsequently lied more about their deceit compared to a weaker or non-existent normative culture. Moreover, reactance theory suggests that people respond to demands placed on them opposite the desired direction when their freedom is constrained (Brehm, 1985). Reactance theory potentially explains greater lying in that one honest culture condition because the absence of formal rules takes on a freedom that is then constrained by the imposition of the honest culture. These speculations can only be addressed properly with future research.

The interaction of rules and climate only affected people high in tolerance for ambiguity. Our hypothesis was that people high in tolerance for ambiguity would be more influenced in their lying behaviour by social information drawn from the ethical climate than would the people low in the trait. The reasoning is that people high in this trait need less concrete information and have greater ability to make sense of the jumble of disparate information. The interaction between culture and rules for participants who were high in tolerance for ambiguity is consistent with the prediction that those high in this trait are more influenced by social information. It was only those people with the facility to deal with ambiguous information who were affected by the sometimes conflicting expectations presented by the formal rules and the culture of the organisation. The other participants, who are not so comfortable with ambiguity, were not so sensitive to the sometimes conflicting demands placed on them in this situation as demonstrated by no particular behavioural response from the rules and culture. Like the findings for Machiavellians, these findings support the interactionist perspective of personality influencing how people respond to their environment.

Practical Implications

The primary finding that Machiavellian people lie more and that they disregarded rules is informative to organisation participants. While it is somewhat too easy to portray Machiavellians as "bad" and unethical, it might be more practically prudent to focus on the non-Machiavellian individuals. One way of interpreting our findings is that the people who were low on the Machiavellianism scale were

more influenced by rules. That is to say that those people were more likely to lie when there were no formal rules against it, which in most ways is not a particularly more "ethical" stance. The practical implication, therefore, is that providing rules to inform behaviour will work for some of the people some of the time, which is a practical step toward developing honesty in organisations.

Our finding that formal rules and culture work together to enhance honesty is of practical utility. There is a lay debate on whether organisations can legislate ethical behaviour, or whether it comes from the individual or the general attitudes of organisation participants. Combined with other research, the present study suggests that maximum ethical behaviour should be derived from both ethical cultures and rules or regulations. This point cannot be undersold. In the present study the most honesty occurred in the honest culture when formal rules supported it. Managers could encourage the most honesty and ethical behaviour when they model that behaviour and achieve its shared understanding and provide the rules, regulations, and even enforcement to support that softer message.

This study provides some further evidence that situations and personality interact, and that some people are more attuned to the requirements of the situation than are others. Of course there might be methodological limitations that would prevent the culture effect from implanting itself in a short term laboratory experiment.

Limitations

A number of limitations should be considered in cautiously interpreting the present study. First, we should be cautious in the way that we generalise these results. This is a laboratory study using student participants, and as such the context is not so rich as that found in the field. The present data offer the luxury of random experimental assignment and its concomitant clarity of effects. However, the participants were not at their real desks despite attempts to make the setting appear to be a real office. These data should be interpreted, therefore, in the context of related field studies such as Trevino and her colleagues (2001).

Another potential limitation concerns the meas-

urement of the dependent variable. The central reported dependent variable was a self-report item. These items were not opinion items, so much as asking participants to report a fact of whether they lied or not in the two letters. These items should have validity since the participants would expect us to match their actual written letters with the results of the post-experimental questionnaire. A self-report measure was used in order to focus on the participants' intent to either tell the truth or lie. The actual letters were coded for honesty, but the reality of the world was that the 'lie' could be obfuscated in the letter by not mentioning, in this case, the date of delivery or not mentioning that there was even a delay. Bok (1978) referred to these two types of lies as concealment and deception. The present study purposely focussed on true, intended deception as opposed to concealment.

A further interpretative caution for the present study has to do with the pattern of results. While we have attempted to explain the results in light of the previous research, not all the hypotheses were clearly supported. In particular, we did not find the straight main effects for formal rules and culture that we expected. Instead we found that they interacted for just the people who were high in tolerance for ambiguity. Interestingly, the pattern of results found in Trevino et al (2001) is similarly not straightforward. While we cannot rule out the possibility of type I error, future research and theory should also consider the possibility that these two constructs take on only the conjoint effect that we have found as opposed to the straightforward, direct impact on ethical behaviour.

Conclusion

The present study adds to our knowledge about what causes lying. Previous empirical work has already shown that people will lie in negotiations (Boles et al., 2000), under role conflict (Grover & Hui, 1994; Schweitzer et al., 2004), and that individual differences of moral development influenced that (Grover, 1993a). We can add to this knowledge that manipulating the rules will have an impact on people who are a little less self interested in any event. It would be interesting to confirm the findings in the field that people have similar influences of situation as found in the present study.

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