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Ethical issues in human resources systems

M. Ronald Buckley^{a,*}, Danielle S. Beu^b, Dwight D. Frink^c,
Jack L. Howard^d, Howard Berkson^e, Tommie A. Mobbs^a, Gerald R. Ferris^f

^a*Division of Management, University of Oklahoma, 307 West Brooks, Norman, OK 73019, USA*

^b*Louisiana Tech University, Ruston, LA, USA*

^c*University of Mississippi, Oxford, MS, USA*

^d*Illinois State University, Normal, IL, USA*

^e*University of Illinois at Urbana-Champaign, IL, USA*

^f*Florida State University, Tallahassee, FL, USA*

Abstract

Currently, the topic of ethics is enjoying a surge in popularity among the media and corporate America. It is unclear if the reason for all the attention is “just for show” or if companies truly believe in the substantive benefits, which can be gained by facilitating an ethical context. However, by examining the negative consequences of unethical corporate cultures, as well as the benefits of ethical ones, we demonstrate that perhaps, in this case, the action is what is important, not the motivation. Human resource systems may be a means to promulgating an ethical culture in that ethics pervade selection and staffing, performance appraisal, compensation, and retention decisions. Thus, human resource systems and ethical corporate cultures should be considered partners in the process of creating competitive advantage for organizations. © 2001 Elsevier Science Inc. All rights reserved.

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Organizations in the US have recently demonstrated a transformation of beliefs and value orientations that suggest a more ethical approach to doing business. Perhaps, as a decided departure from a “win-at-any-cost” mentality, a reaction to cynicism of the US workforce, a return to core values as a basis of management philosophy, and/or the symbolic reputational effects organizations accrue by espousing “politically correct” values, organizations in this country have never witnessed such a strong focus on business ethics. Because we increasingly recognize that the effective management and utilization of human resources can be an important

* Corresponding author. Tel.: +1-405-325-5729; fax: +1-405-325-1957.

E-mail address: mbuckley@ou.edu (M.R. Buckley).

source (among a number of other sources) of sustained competitive advantage (see Cascio, 1991 for a thorough discussion of the costs associated with effective/ineffective human resources practices), we need to consider different ways that we can implement integrative human resources innovations to impact on the bottom line, and this includes ethical considerations.

The present paper suggests, fundamentally, that there are a number of issues in the design and implementation of human resources systems that have ethical implications, which may or may not be handled well. After beginning with the overarching culture that incorporates ethics as a core value and how that process transpires, we move to an examination of specific human resources practices and their ethical implications. Then, we consider the consequences of unethical cultures, and, finally, we examine the justification or reasons why ethical cultures emerge and are perpetuated, their benefits to organizations, and why ethics become fundamental values of some organizations, woven into the very fabric of their operation. Finally, we consider the symbolic versus substantive roles and functions of ethical value orientations in terms of addressing an organization's multiple constituencies.

1. Etiology of ethics in organizations

The popular interest in and focus on ethics in organizations today suggests a number of questions that range from the meaning of business ethics, to reasons why it is a key consideration today versus in past years, to ways it relates to critical concerns that need to be addressed in order to make ethical cultures sources of sustained competitive advantage. Therefore, we need to define the basic terms we are discussing, and articulate precisely how and why we see ethics in the treatment of human resources practices as good business.

1.1. What is ethics in organizations?

Most definitions characterize ethics as concerns with moral judgment and standards of conduct (Angeles, 1981; Lacey, 1990). We would add to that a focus on shared value systems that serve to guide, channel, shape, and direct the behavior of individuals in organizations in a productive direction. Indeed, we would suggest that ethics serves the same general function for organizations as do laws and accountability mechanisms in our society. That is, these entities serve as channeling or shaping mechanisms that help to encourage appropriate decisions and behavior at work. Indeed, as we later argue, ethics require accountability systems.

This section is focused on the nature of ethics, itself. Ethics is a traditional area of philosophical inquiry that delves into normative rules of behavior. That is, ethics is about how people *ought* to behave and so it focuses on duty and the boundaries of right and wrong. However, ethical debates can quickly become intractable even after thousands of years of recorded scholarly discourse on the matter. How an ethical debate is framed plays a large role in the potential for understanding differing views regardless of the potential for resolution. Consequently, before discussing ethical issues (within ethics), we discuss the nature of ethics (about ethics).

For our present purposes, framing of ethical issues considers the law and the way the world is, and hence a degree of pragmatism prevails. Even so, the type of theoretical or personal

perspective one takes on ethics will strongly guide the framing of the organizational question one strives to answer in addition to the answer itself. A full or even representative review of the state of ethics debates is beyond the scope of this paper; however, two perspectives on ethics, relativism and utilitarianism, are briefly touched upon to provide a basis for understanding some of the difficulties one might expect to encounter in researching ethics in human resources management (HRM).

Ethical relativists may tend toward comparative and descriptive research because their perspective is less normative than other theoretical approaches to ethics. According to ethical relativism, right and wrong are determined by the ethics of some relevant group. One important question is, naturally, “what is the relevant group?” Clearly, the choice a researcher makes on this point will affect outcomes because the ethical norms within a work team may be different from those sanctioned by local management, by executive policy, by the stockholders, or by local, state, or federal law. Moreover, ethical views of these different hierarchies may receive different weighting relative to the importance and success chances of any given behavior one might consider.

For instance, well-known state laws prohibiting theft probably play a small role, pragmatically speaking, in shaping an employee’s views about workplace pencil-stealing compared to perceptions about the views of people who may actually see one stealing pencils. The situation may be precisely the opposite when research is about workplace violence. This is so because the former may get one fired or shunned, but not prosecuted for petty larceny; however, violence will probably result in both termination and prosecution. One major weakness inherent to ethical relativism is that, at the individual level of analysis, everything the individual does has the potential to be ethically right. The counterintuitive result is that a psychotic may be morally righteous regardless of her behavior if she is her own ethical referent. One of the strengths of relativistic accounts of ethics is that they do well in the face of diametrically opposed views.

Another view that might be taken by researchers is John Stuart Mill’s utilitarianism. According to the utilitarian theory, one has a duty to calculate how much happiness various courses of action will generate, and to choose the course of action that generates the most happiness. Utilitarianism is highly egalitarian in that it forbids considering people differentially if they may be affected by one’s behavior. Relativism does not imply tolerance or egalitarianism, whereas Mill’s utilitarianism expressly requires it. One strength of utilitarianism is that it lends itself well to social science in small groups. Utilitarians may focus on small groups because they have stricter measurement requirements. A major weakness is that it rapidly becomes unwieldy as the scope of one’s behavioral consequences widens.

The primary difference regarding outcomes between relativistic approaches and utilitarian approaches is the set of conditions under which they can resolve a moral question. The relativists can tell us about right and wrong if they can correctly select the referent group and discover what the group holds to be right and wrong. The utilitarians, on the other hand, can tell us about right and wrong if they can measure happiness and tell who is affected by any particular activity.

To provide one example, Rachels (1986) relates a story from Herodotus (trans. 1972) in which an ancient Persian king asks a group of Greeks what it would take to make them eat their dead parents. The Greeks considered eating dead relatives to be the utmost in disrespect

for their ancestors and found the proposition revolting. In their view, the only proper burial for the dead was conflagration. Then, while the Greeks listened silently, the king called forth a group of Indians and asked them what it would take to make them burn their dead parents' bodies. The Indians found that proposition revolting because they believed the proper way to revere one's parents was to consume their corpses. In such a case, how is the ethical situation best understood? Furthermore, how is a resolution of such differences to be undertaken if gross conflict may result otherwise?

Relativism allows for such differences as those recorded by Herodotus. More normative approaches require action ranging from shunning to warfare. The relativists would tell us that the cultures from which the Greeks and Indians come are, respectively, the appropriate referent groups, and therefore both groups engage in morally righteous burial practices. The utilitarians must argue something like the following: the morality of the burial practices cannot be known without first understanding the degree to which the good of society is served by the different rites, respectively. Taking that into account, the utilitarians would propose a head count. The larger population, accounting for fervor or "happiness", would "win" the moral debate in that case.

The final example focuses on contributions to charity. Different ethical theories provide different reasons potentially explaining why individuals do or do not engage in contributions to charity. A relativist might argue that such contributions have no moral value because they are not valued highly by the appropriate referent group. That is, for whatever reason, the referent group simply places no moral value on charitable contributions. A utilitarian explanation for why people choose not to give to charity is that individuals may egoistically include themselves in the happiness equation. Therefore, individuals may determine that they are made happier by retaining their money than the net gain in happiness for the relevant world if they gave to a charitable organization. The relativists point to a referent group and ask what would members of that group approve as the appropriate behavior, whereas the utilitarian asks for a calculation of happiness imparted by the charitable gift.

There are many other approaches to ethical inquiry. Even with respect to relativism and utilitarianism, there are several subclassifications, but these two serve as a foundation for most business ethics dialogue. Two important dimensions along which theories diverge are the extent to which they are egoistic versus altruistic and on the extent to which they are normative versus relative. Because researchers' perspective *about* ethics will have a strong effect on their conclusions *within* ethics, a clear understanding of what one is accepting by taking a particular kind of view in ethics and a clear statement of that view are necessary for quality work.

1.2. Contemporary focus on ethics in organizations

Why have ethics become such an important issue in HRM? Perhaps a focus on ethics may be a response to disenchantment, lack of commitment, dissatisfaction, or growing cynicism in the workforce (Bateman, Sakano, & Fujita, 1992; Kanter & Mirvis, 1989). According to Kanter and Mirvis (1989), there is considerable cynicism in many demographic groups (e.g., the young, minorities, less affluent, etc.). This cynicism is undoubtedly fed by, among other things, the increasingly wider gap between CEO pay and average employee pay. J.P. Morgan,

at the turn of the century, specified that the gap should be no larger than 20:1; in 1993, it was 143:1; in 1996, it was 185:1; and it is still growing (Peach, 1996).

Alternatively, top executives see ethics as “good business” in terms of enhanced image, reputation, and a source of competitive advantage. Sixty-three percent of *Fortune* 500 CEOs reported that strong ethics in an organization yield a strategic advantage for their organization (Eskin, 1997). Indeed, we are seeing numerous organizations following the lead of companies like Levi Strauss in terms of adopting codes of ethics, providing ethics training, and creating positions for ethics officers (sometimes carrying VP-level titles).

1.3. Ethical cultures and environments

The logic supporting ethics as good practice is that ethical contexts will create the proper climate, which will serve to drive the development of ethical human resource practices. The result is a shared value system that channels, shapes, and directs behavior at work. Ethical work environments consist of common perceptions of typical organizational practices and procedures that have an ethical content, where ethics simply dictate what a person should do (Victor & Cullen, 1988). Normative systems in the organization must be institutionalized (i.e., organizational members must have a measurable degree of consensus) in order for an ethical work climate to exist (Schneider, 1983). Ethical environments affect a broad range of decisions as they are deeply embedded in many of the characteristics of an organization. The types of ethical contexts existing in an organization influence what ethical conflicts are considered, the process by which such conflicts are resolved, and the characteristics of their resolution.

Victor and Cullen (1988) stated that the ethical context of organizations is multidimensional and is derived from three sources: sociocultural, bureaucratic-structural, and firm-specific. Ethical environments tend to reflect institutionalized societal norms, and are built upon at least a minimal level of personal consideration within the organizational environment. Thus, the larger sociocultural environment appears to be one source of the ethical climate in organizations due to the fact that these organizations operate in and draw membership from this environment. A second source may be the organizational form, as described by bureaucratic theory (Blau & Meyer, 1971) or transaction cost economics (Williamson, 1975). A third determinant may be the unique characteristics of organizations’ histories and individuals’ histories in the organization. Ethical climates are perpetuated with effective attraction, selection, and retention strategies (which serve to cement the ethical climate of an organization), combined with those events that shape behavior during the socialization process. Individuals may enter, remain, or leave organizations, if there are available alternatives, dependent upon whether they share the ethical values espoused by the organization. Importantly, the development of ethical cultures is not a zero-sum game. There is ample room for infinite ethical cultures among organizations.

1.4. Values, accountability, and ethics

A key consideration in the nature of cultures of any type are the core values that exist in an organization. These are the values articulated and reinforced by top management, imparted to

new organization members, and spread throughout the organization. We believe that such values have a substantial influence on performance in an organization.

Values can be communicated in organizations via socialization and codes of ethics. However, if people do not agree on or do not know the norms and values of an organization, a weak corporate culture exists (Finegan, 1994). Unclear organizational values, counter-norms, and weakness in individual character are just some of the reasons unethical behavior occurs in organizations. Managerial solutions are available to top executives who are making an effort to be in proper ethical alignment. However, if the companies are truly concerned about future competitiveness, the challenge of ethical behavior in organizations must be met and accepted at every level of the organizational hierarchy.

Chief executives must communicate and encourage a sort of “ethical consciousness” within their organizations. It is imperative that they deliver, believe in, and model or live the message that their organization is guided by certain morals and values, as well as enforce any codes already in place. The chief executives should show pride in their organizations’ ethical standards in such a way that it becomes infectious. This will give employees the knowledge that the organization appreciates a person for acting in accordance with these standards, helping to resist temptations to behave unethically. Managers must reinforce appropriate ethical behavior, and do so in a manner that is desirable to the recipient. Corporate ethical values can drive or be driven by the corporate culture, and it is imperative that this phenomenon be understood by those who are encouraging an ethical climate.

Because ethics concerns situationally appropriate values, it includes moral judgment and standards of conduct. By being situationally appropriate, we mean the types of values that are relevant to a given *context*, and not simply the *content* of those values per se. So, for example, business ethics would concern values specifically relevant to business contexts and medical ethics concerns values related specifically to medical practice. Ethics, in this view, focuses on the shared value systems that serve to guide and direct the behavior of organization members. Essential for shared systems is a need to support the alignment of individual behavior with those shared systems, and this is the domain of accountability (Frink & Klimoski, 1998). Accountability is the perceived need to defend or justify behaviors to an audience with sanction authority and the standards used are based on shared value systems.

Any type of social system is based at some level on shared expectations, including the various ethical systems embedded therein, and furthermore, individuals are viewed as agents of their own actions in aligning with or deviating from those expectations. Therefore, the basis for holding up standards for performance consists of: (a) the existence of a shared system of expectations, and (b) the agency we have for our actions. Thus, we can be held accountable for behaviors (Frink & Klimoski, 1998; Tetlock, 1992). Accountability for behavior is indeed a universal social norm (Tetlock, 1985, 1992). Accountability theory posits, then, that people generally expect to be held accountable, and in response, try to identify their sources of accountability, and then tailor behavior to accommodate those accountabilities (Frink & Ferris, 1998; Frink & Klimoski, 1998; Tetlock, 1992; Tetlock, Skitka, & Boettger, 1989). We further argue that this is the foundation of ethical behaviors in organizations.

Ethics, then, become operationalized, in part, in the formal and normative accountabilities that occur in organizations. Indeed, organizations typically have enacted numerous account-

ability mechanisms designed to result in adherence to ethical expectations (i.e., ethical behaviors). These mechanisms include such things as disciplinary systems, performance evaluations, merit compensation, and other reward systems, performance monitoring, employee handbooks, formal hierarchies, and many others. In addition, there are usually numerous informal accountability systems in organizations, some of which are sanctioned or approved by the organization (e.g., informal information channels, centrally located break-rooms that facilitate cultural influencing, and suggestion boxes), and some of which are often not (e.g., informal sanctions for “rate-busting”). Thus, we broaden our understanding of accountability to include the normative support systems that are critical for the promulgation of the organization’s ethics. There is indeed an inextricable relationship between the ethics, which the organization espouses, and the web of accountabilities, which exist in an organization. In sum, accountabilities are built on ethics and operationalize ethics to support ethical behaviors. Alignment of these should result in clearer standards, more effective accountability mechanisms, and desirable behavior. Ethics and accountabilities are elements of the culture, which support ethical behaviors.

For example, Rousseau (1995) noted that ethical issues are intricately tied to individual perceptions of justice in an organization. Individuals have a tendency to feel as though they have been treated fairly when they perceive fairness in decision processes. If individuals feel as though they have been treated in an ethical fashion, there is a tendency to perceive decisions as legitimate and understandable. Indeed, in writing about procedural and interactional justice, Bies and Moag (1986) outlined six basic procedural rules, based on earlier research, inherent in the perception of justice and ethical treatment: consistency (procedures should be consistent), bias suppression (personal self-interest should be prevented), accuracy (decisions should be based on good information and informed opinion), correctability (decisions can be changed if additional information warrants), representativeness (concerns of all important subgroups must be considered), and ethicality (processes must be compatible with prevailing moral and ethical standards). Following these six procedural rules will facilitate both the ethical behavior in an organization and positive perceptions of decisions, which are compatible with these six procedural suggestions.

Ethical values must be woven intimately into the fabric of an organization. As Nielsen (1996, p. ix) has argued, “Ethics cannot be separated from politics, just as it cannot be separated from the day-to-day life of business.” Ethics pervade all activities of an organization, even political behavior. Some political behavior is well intentioned and is essential in the attainment of organizational goals, but much political behavior is best described as a “walk on the dark side” (Ferris & King, 1991) and has negative consequences in an organization. Cropanzano and Grandy (1998) have stated that workers tend to see politics in a very negative light. When there is a perception that decision making is influenced by politics, individuals tend to report low levels of organizational commitment, loyalty, and organizational citizenship behaviors and high levels of intentions to turnover, stress, job anxiety, and psychological withdrawal behavior (Cropanzano & Grandy, 1998).

Overall, there are many foundational constructs that relate to ethics and they converge in the development of ethical environments. We have discussed some of these constructs, besides ethics, including values, politics, justice, and accountability. Others include diversity, citizenship behavior, and organizational support. Certainly, trust and loyalty are outcome

measures we would hope to see as benefits of ethical cultures, as are citizenship behaviors and diversity. These factors may have an influence upon organizational effectiveness.

Further, ethical behavior in and by organizations may yield image and “reputational capital” for those firms (Fombrun, 1996). Organizations that facilitate ethical behavior concurrently bolster their image, reputation, and legitimacy, resulting in a positive cycle of ethical behavior, which results in competitive advantage for organizations. Human resource systems are almost certainly tied to organizational performance through intermediate linkages of culture/climate and employee attitudes.

2. Ethical considerations in human resources systems

2.1. Selection/staffing

Perceptions of justice in selection systems have important implications. Steiner and Gilliland (1996) have reported that if applicants perceive selection tests to be both fair and possess face validity, they have a more positive attitude toward the organization and the selection procedures. If applicants are rejected, they still perceive the selection system to be relatively free of bias. Selection systems should leave applicants with the perception that they have been treated fairly, and one important and easy way to accomplish this is to simply treat people fairly.

Recent research has focused on selecting people on the basis of fit with a set of values that the organization reflects, fit with organizational culture, and/or overall fit with an organization (Bowen, Ledford, & Nathan, 1991; Judge & Ferris, 1992). Hopefully, those with ethical values, which diverge from those of the organization, will self-select out. These values can be communicated throughout the selection process. Ethical values can be inculcated and developed through selecting those who fit in with the prevailing ethical values in the organization. Furthermore, values of an organization can influence candidate job choice decisions. Judge and Bretz (1992) found that individuals were more likely to choose jobs whose value content was similar to their own value orientation.

2.2. Performance appraisal

There is much literature concerning the performance appraisal process, which indicates that managers are less committed to accuracy and honesty and will oftentimes use the process for political purposes (Banner & Cooke, 1984; Longenecker, Sims, & Gioia, 1987). Many political behaviors have been shown to be related to more favorable performance appraisals (Ferris & King, 1992; Wayne & Ferris, 1990). In addition, there is much work on perceptions of justice and appraisal, ethical issues of electronic performance monitoring of subordinates, the privacy of information in the workplace, and so forth. The bottom line is that appraisal is a process where ethical issues may be most important, and it is a process within which ethical behavior may be severely tested. Because of its largely subjective and socially constructed nature, performance is basically a political act and is fraught with many of the problems that go along with the impression management process.

The expectations and understandings that emerge in this process are primarily centered on the shared meanings of work and performance, although they likely also include social and political information. Each of the parties develop their own sets of perspectives, which are an amalgam of experiences, standards, norms, and objectives that each bring. Some are based on information internal to the organization, some from external sources, and all are likely to be influenced by each person's notions of "what is good for me, or from my own perspective." The cusp of these shared expectations, especially when based on social norms, is that they form a structure to understand, communicate, and operationalize the ethics to which the firm adheres. Thus, one aspect of the performance evaluation process is that it is a social communication process, which affords an opportunity to communicate the shared expectations of ethical performance in addition to other facets of the employment relationship. A performance evaluation system is therefore an accountability mechanism, which provides a means to both communicate and operationalize specific types of ethical behaviors.

Therefore, having presented the relationship between ethics and accountability earlier, we can apply that relationship to performance evaluations. Performance evaluations evoke an accountability episode because, by nature, the process is an accountability mechanism (Ferris, Mitchell, Canavan, Frink, & Hopper, 1995). The process also is embedded in the culture of the organization and worked out by the personal perspectives of the participants (Cleveland & Murphy, 1992).

Thus, the ethical manner in which employees deal with one another, with supervisors and subordinates, with customers and suppliers, with regulators and agencies, with the legal structure, with societal norms, with performance effort and direction, and so forth, can be developed in considerable detail and supported by reinforcement. Specific problems that might emerge from an accountability perspective concern such ethical concepts as dealing with multiple sets of expectations, conforming with peer group expectations, dealing with various aligning versus misaligning expectations, conforming to inappropriate expectations, and dealing with cultural norms that do not support expectations. This provides a linkage with the political perspective on performance appraisals and ethics mentioned above.

2.3. Compensation

In recent years, real wages have been relatively stable, some may say they are declining. Juxtaposed against that is the meteoric rise in CEO compensation. Indeed, CEO compensation has been oft-cited as an example of lack of constraints that could be altered by manipulating accountability conditions (Crystal, 1991; Ferris et al., 1995; Gomez-Mejia & Balkin, 1992). From an ethical perspective, this represents a breakdown that is associated with the closed ethical culture that produces it, and the broader organizational culture, which is distant from the decisions.

The entire community of individuals who are involved in CEO compensation decisions is a rather small, elite group, usually consisting of board members (who often share memberships with other organizations), a compensation consultant, and the CEO. The CEO and board distance themselves from a particular evaluative group, making accountability less effective from that constituency. They are therefore somewhat insulated from more general societal norms, and thus less pressured to conform to generally shared expectations for reward

systems (Crystal, 1991). Frink and Klimoski (1998) referred to such instances as role taking, wherein individuals proactively and reactively construct the accountabilities to which they respond. Without connectedness to socially held norms, there is essentially a lack of accountability. We therefore find a situation that might be described as unethical, but perhaps more accurately described as ethically incomplete, or void. Those who evaluate and the outcomes of those evaluations may not answer to external audiences, although an ethical perspective might suggest that they should (Crystal, 1991).

Underlying this phenomenon is the notion that people try to manipulate or influence their accountabilities, possibly even avoiding less beneficial or unpleasant ones. By implication, in such instances, people also are manipulating the ethics to which they are constrained to adhere. Such instances likely have substantial implications for the ethical nature of the culture of the organization.

In essence, the ethical culture is influenced by and influences the structures of executive compensation, and much of what results is the outcome of a system that has been insulated from accountabilities. Stockholder activism has been demonstrated as a means to change the pattern (Crystal, 1991), and perhaps this change might generalize to the ethical culture of the organization also.

Furthermore, compensation can be examined from an individual perspective. Individuals must be treated equitably with respect to compensation. This includes ensuring perceptions of procedural and distributive justice, evaluating the fairness of the reward system, monitoring compliance with legislative mandates (i.e., pay fairness issues), and implementing systems that minimize the influence of wage compression. Compensation is important at all levels of an organization and must be treated as such.

2.4. Reward systems

Organizations have a bad habit of developing reward systems that run counter to the behavioral outcomes which they desire. Kerr (1975) has referred to this as the “Folly of rewarding A while hoping for B.” Organizations may hope for ethical behaviors, but they may have a tendency to reward individuals for unethical acts, and actually develop reward contingencies that facilitate unethical behavior (e.g., Janson & Von Glinow, 1985). For example, “do what it takes to get the job done” or an absence of accountability may lead individuals to engage in behavior that violates ethical norms.

2.5. Organizational exit/downsizing

The planned elimination of positions or jobs (downsizing) has been a fact of organizational life for the past few decades. Since 1979, *Fortune* 500 companies have cut over 5 million jobs — more than one out of every four they once provided. According to Ferris, Bergin, and Howard (1996), downsizing has not proven to be consistently related to future increases in profitability and productivity. Less than half of the organizations that engage in downsizing realize increased productivity (40%) and increased profitability (45%). From an ethical decision-making perspective, one needs to ask how these downsizing decisions are made. Ferris et al. posited that many of the decisions made in this process are political in nature, as

opposed to rational. However, the politics in these decisions is not only limited to organizations. Employees also can engage in manipulative, self-serving efforts to ensure that they are not eliminated. Certainly, downsizing decisions can violate the psychological contract (Rousseau, 1995) formed between individual and organization. There are many justice, political, and ethical issues, which can be brought to bear on just how organizations make downsizing decisions.

3. Consequences of unethical cultures

An unethical culture can become a crisis because it may facilitate behaviors that are antithetical to organizational objectives. Successful organizations are generally based on a network of trust, which binds managers, employees, shareholders, suppliers, and customers. In unethical cultures, trust deteriorates, but initially, the effects may not be outwardly evident. Employers and employees may feel guilt or apprehension about what they are doing, but they are able to rationalize it. Employees with high personal integrity may become disenchanted and go elsewhere. This taxes the selection system in terms of finding replacements with ethical beliefs different from those that have been demonstrated. In a Darwinian sense, this unethical culture may be the beginning of a downward spiral. There are numerous potential consequences of unethical cultures, and we discuss a number of the most salient ones below.

3.1. Cynicism

Kanter and Mirvis (1989) have suggested that cynicism helps individuals cope with an unfriendly, insecure, and unstable world. They have reported that a fairly large percentage of the workforce is somewhat cynical, especially those in the profit-seeking sector. This cynicism is cultivated by companies that “embody expedient, self-serving values, that support managers who engage in deceptive and exploitative practices, and that communicate in a one-sided, hyped up, and disingenuous fashion to their employees” (Kanter & Mirvis, 1989, p. 19). Disillusionment and the sense of being let down by those who are in power also contribute to cynical employees. Thus, we would argue that this phenomenon is at least partially caused by lack of trust, lack of faith, and lack of belief in self-interested and oftentimes unethical management.

Indeed, recent research in this area has indicated that principal sources of cynicism focus on the self-interested behavior of corporate executives, and how workplace policies are implemented (e.g., Andersson & Bateman, 1997; Bateman et al., 1992; Dean, Brandes, & Dharwadkar, 1998). Cynicism manifests itself in employee mistrust of the system and employees looking out for their own best interests. Organizational newcomers are more interested in getting ahead than in corporate success. Employees are uninterested in helping the organization progress because they believe that their ideas and suggestions are not valued and rewarded by management. Customer service suffers as employees lack loyalty and interest in their company. It is obvious that when employees believe that they are constantly misled and taken advantage of, cynicism is rampant and overall corporate performance suffers.

3.2. *Destructive politics*

Whereas politics are prevalent in all businesses, they range from being useful and productive to being quite dysfunctional and destructive. In an unethical business environment, people may be rewarded for “getting the job done” without any concern for how this objective is achieved. Some organizations may share traditions with embedded biases that discourage ethical behavior. Individuals are encouraged and rewarded for *not* thinking about illegal or immoral behavior, while working toward what are seen as organizational goals. These politicians may fool themselves into believing that they behave in a way that is necessary to perform; they call themselves realists. They tend to be concerned only with their individual short-term goals and careers. This results in short-term success for the person, as well as the organization, but may result in a negative long-term impact on the organization. We all respond to rewards, and thus organizations need to be careful in designing their reward structures so they avoid the destructive politics that encourage its employees to focus on the minuscule instead of corporate success.

3.3. *Workplace aggression and violence*

One of the more publicized and fastest growing problems confronting organizations is that of workplace aggression and violence. When considering the ethical culture of the organization, it appears that the source of workplace aggression and violence would be from within the organization (O’Leary-Kelly, Griffin, & Glew, 1996). Many aspects of the organization’s culture that lead to workplace aggression and violence appear to operate through the perception of inequities and injustices within the organization.

In unethical organizations, inequities tend to exist in the workplace, creating a situation in which employees take actions to correct the inequities. For example, when the inequity is such that an employee perceives himself or herself to be underpaid relative to the amount of work they are required to perform, they may take negative actions toward the organization to correct the inequity, such as an increase in employee theft (Greenberg, 1990). This aggressive act represents a cost to the organization, and may not only be the result of an unethical culture, but may cause it to continue, particularly if the aggressive act is not punished by the organization.

Other events create perceived inequities, such as being laid off, passed over for promotions, terminated, or pushed too hard on the job, resulting in high levels of job stress. In several of these situations, workplace homicide has been the resulting action on the part of employees attempting to “even the score” with the organization and its representatives (Cromie, 1998; Fox & Levin, 1994; McGarvey, 1994; Stuart, 1992). When the relationship with the employer is no longer perceived as equitable, employees may attempt to make the relationship equitable from their frame of reference by resorting to workplace violence.

Unethical organizations may also promote situations that are perceived to be unjust. Justice can focus on the outcomes of the decisions (distributive justice), the decision-making process (procedural justice), and/or the manner in which individuals are treated (interpersonal justice), all of which influence the perceptions of fairness individuals develop (Folger & Baron, 1996; Folger & Greenberg, 1985). While each of these forms of justice may influence the

perceptions of fairness, the negative consequences associated with injustices perpetuated by unethical organizations can manifest themselves in a variety of ways, including workplace aggression and violence.

Issues associated with psychologically unhealthy organizations are closely related to the procedures used by an organization, and the perceived fairness of these procedures (Freiberg, 1998). Given that an organization can do much to create a fair, ethical, or healthy environment, it is important to focus attention on creating such an environment, because it can reduce workplace aggression and violence (Barling, 1996).

Looking closely at the incidents associated with the US Postal System reveals how an unethical organization and its management can create an environment conducive to acts of aggression and violence. The investigation that followed the Royal Oaks Post Office murders revealed that intimidating and inconsistent disciplinary procedures led to the murders at this facility (A post office tragedy: the shooting at Royal Oak, 1992). Additionally, workers were harassed and taunted by supervisors after being told that if they talked while working, they would be suspended (Baxter & Margavio, 1996; Zender, Harrington, & Wittrup, 1992). This might indicate that perceived injustices, such as unjust discipline, layoffs, and lack of promotions, could lead to workplace violence (Baron & Neuman, 1996; Folger & Baron, 1996; Neuman & Baron, 1997). This could represent a case where both poor management and unethical acts on the part of management might come together to create a psychologically unhealthy organization. If this occurs, aggressive and violent behaviors on the part of employees could result out of response to the organization's actions.

Unethical organizations that make decisions at the expense of their employees might suffer negative consequences associated with these decisions. While outcomes are related to the more extreme and final behaviors, the manner in which individuals are treated leads to forms of aggression and violence. It is not always clear if the perpetrators were upset with the process, treatment, or outcome, although some have indicated that the treatment was the primary cause (Bensimon, 1994). Regardless, it is perfectly clear that what organizations do can and does influence workplace aggression and violence, with unethical organizations at much higher risk.

4. Benefits of ethical cultures

The entire basis of promoting ethics in organizations rests on the notion that ethical cultures produce benefits that result in a competitive advantage. Therefore, we now move to fundamental sources of benefit from building and maintaining an ethical culture.

4.1. Greater accountability

One perspective of organizations is that their essential purpose is to predict and control the behavior of their members. If, as discussed earlier, accountability operationalizes an ethical culture, accountability should then promote compliance (and hopefully commitment) toward organizational ethics. Furthermore, because ethics can be defined in terms of shared expectations, accountabilities and standards become more clearly defined

when supported by an ethical culture. People have a better understanding of what is expected of them, and the mechanisms that transmit and support the culture are less encumbered by ambiguity, uncertainty, and dysfunctional malleability. Accountability can then serve as a more effective (but less needed) means of operationalizing or supporting the ethical culture. Indeed, we also may find that the need for accountability mechanisms declines if the ethical culture effectively helps to internalize desired perspectives and motivations in the employees, whereby such internalization results in employees controlling their own behavior.

Because expectations and accountabilities are more clear and consistent, strong ethical culture should help mitigate accountability dysfunctions, such as increased use of impression management tactics (Ferris et al., 1997), stereotyping (Gordon, Rozelle, & Baxter, 1988), focusing on irrelevant information (Tetlock & Boettger, 1989), inflating performance evaluations (Klimoski & Inks, 1990), and misallocation of scarce resources (Adelberg & Batson, 1978). In each of these cases, the focal persons likely thought they were meeting the standards the evaluators would accept (Frink & Klimoski, 1998; Tetlock, 1985, 1992). An ethical culture should enhance various forms of accountability because the standards are more clearly understood and are both formally and normatively supported. Optimally, this should result in greater internalization of ethics by the organization's members.

Extending this perspective leads to the conclusion that ethical environments should promote a better sense of, and greater adherence to, acceptable behavior and high integrity. In addition, a stronger sense and understanding of accountability as expected from all parties should result. Greater social responsibility and less socially inappropriate behavior are the natural results, which includes fewer ethical and legal violations, and greater levels of organizationally desirable behavior and activity.

4.2. Increased firm valuation

There is some evidence that firms with strong ethical cultures realize greater valuation by the stock market and investment community. Strong ethical cultures send a signal that the firm is well managed, invests in human assets, appears to be doing all the right things, and this increased reputation influences increased investment which raises the stock price (see Belkaoui & Pavlik, 1992; Fombrun, 1996; Harrell-Cook & Ferris, 1997). Also, recent research has shown that firms that place an emphasis on fairness objectives in treatment of employees, through progressive human resources practices, received higher scores on a corporate reputation index (Koys, 1997). Fombrun (1996, p. 9) has argued that "Better-regarded companies build their reputations by developing practices that integrate economic and social considerations into their competitive strategies. They initiate policies that reflect their core values; that consider the joint welfare of investors, customers, and employees." Furthermore, he suggests that a company's reputation derives from its management practices, which make the firm a good place to work.

Interestingly, research on corporate level illegalities (Baucus & Baucus, 1997; Baucus & Near, 1991) indicates that corporate wrongdoing oftentimes fails to result in corporate problems. Although companies must engage in defensive tactics to salvage their reputation, and they may be required to expend significant funds, which have an impact upon accounting

returns, stockholder returns are usually not affected. In fact, these studies analyzed numerous incidents of corporate illegalities and reported that corporate wrongdoers suffer only insubstantial long-term consequences with respect to marketplace valuation.

4.3. Increased cultural diversity

Diversity initiatives typically go along and are consistent with ethics programs and ethical cultures (see, for example, Levi Strauss). And we can see how such core values that become integral to the cultural fabric can lead to greater substantive as well as symbolic firm performance (Ferris et al., 1999). A social context perspective would suggest that the organization is the result of an interactive relationship with social context factors, including various dimensions of diversity. The model proposed by Ferris et al. (1999) suggests that the process begins with the influences of the social context, which drive the nature of the HRM policies and practices. Diversity initiatives, as a key component or value of the culture and manifested in HRM systems, would seem to be based on characteristics of the social context. An internally consistent and well-integrated HRM system then should influence the organizational climate and employee attitudes, and these affect the organization's reputation, according to the Ferris et al.'s model. As such, the nature of the culture in terms of diversity and ethics form part of the basis for HRM systems, and therefore, both substantive and symbolic performance. To the extent the organization is characterized by an ethical culture, it should enjoy benefits associated with positive management of its various human resources.

5. Symbolic vs. substantive ethics

An important question which arises in this area concerns the following: To what extent are initiatives related to ethics truly substantive and representative of true organizational values? Are these initiatives important to management or are they just symbolic, fancy window dressing? Do organizations truly embody the values they profess, or do organizations just want to appear to be proponents of an ethical orientation? Basically, we are posing the question "What is the motivation of organizations engaging in ethics initiatives?" After giving these issues considerable thought, we must conclude that, from an applied perspective, motivation is not an important factor in encouraging individuals to act in an ethical manner. Neither is it important whether an organization's intention is symbolic or substantive. What is important is that ethical values are inculcated in employees and ethical behavior results. Indeed, whereas we might like to envision employees as internally driven to behave ethically because out of genuine and morally correct motivation, it is the actual demonstration of ethical behavior we wish to bring about, even if it is through direct compliance, or to satisfy other agenda. Much the same as with the use of accountability mechanisms, we may have to expect a temporal progression from compliance to internalization as the stimuli for work behavior.

6. Conclusion

Organizations are moving more toward an ethical approach to conducting business. Human resource management can be instrumental in this move. Many of the issues we discussed in this paper will help organizations in their move toward this direction. Hosmer (1994) has eloquently made the case that organizations, which follow ethical precepts have a significantly better chance of success than do those engaged in dishonest and unethical behavior. As Buckley, Wiese, and Johnston (1996) have reported:

The “moral decay” in organizations is considered a business crisis because the repercussions of unethical business practices may be deadly to the organization. Even if a company’s unethical “virus” is initially undetected, the corporation will soon experience unhealthy symptoms. Successful enterprises are inevitably based on a network of trust binding management, employees, shareholders, lenders, suppliers, and customers. When companies begin to lose sight of ethical behavior, these crucial relationships start to deteriorate. At first, the effects may not be outwardly evident. Employers and employees may feel badly about what they are doing, but they are able to rationalize it. This is the beginning of “moral decay.” Employees with high personal integrity become disenchanting with their organization and go elsewhere. Customers that feel they have been given poor quality or charged too much for what they are receiving will turn to other organizations. People will begin “hearing things” about the organization’s lackadaisical attitude towards ethics, causing the organization to have a difficult time keeping current customers happy, bringing in new business and/or hiring high quality employees. At this point the decay begins to be outwardly noticeable. (p. 11)

We believe the logical extension of the above argument is that most successful organizations possess a culture which is in line with strong ethical values. In fact, we would suggest that, in the Darwinian sense, unethical behavior leads to failure in a business environment, and hence the environment selects against those who engage in unethical behavior. We must heartily agree with Hosmer’s (1994) conclusion that “Ethics do pay.” And, we are compelled to add — human resource management practices can help facilitate the development of a more ethical organization.

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