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Factors Influencing the Unethical Behavior of Business People

Adam Boes
Grand Valley State University

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Over the past decade, news stories about unethical behavior in the workplace have been a regular feature on TV. Whether it is companies such as Enron or individuals such as Bernie Madoff, the unethical behavior of business people is inescapable. In the face of these scandals, researchers have been slowly uncovering the causes of such behavior. Usually, we think that unethical behavior is the result of poor character: bad people do bad things. But this attachment may be profoundly inadequate (Spiegel, 2012).

Researchers have concluded that most humans are capable of behaving in profoundly unethical ways. Not only are they capable of it, but without realizing it, they do it all the time (Kelaris et al,1991) . It's possible that certain cognitive frames make humans blind to the fact that they are confronting an ethical behavior at all (Spiegel, 2012). A business frame cognitively activates one set of goals- to be competent, to be successful, while ethical frames triggers other goals (Tenbrunsel and Messick, 2004). Once one is in this frame of mind, they become focused on meeting these goals, and other goals can completely fade from view. That some goals take the forefront and others become suppressed highlight that we aren't aware of our unethical behavior (Spiegel, 2012). It's not the character that makes one unethical, but instead the situation and frame of mind they are in.

While research has been done to test how different frames of mind affect unethical behavior, little research has been done on the cost-benefit process in the business frame of mind. Also, little research has been done on how different personality traits and perception of others influences unethical behavior. Our research will explore these issues, as well as provide further support to Tenbrunsel and Messick's finding that different frames of mind produce different effects on cooperative behavior. This research is beneficial to employees because it makes them aware of the factors that lead to unethical behavior so that they may avoid these situations in the future. Also, it is beneficial to businesses to make them aware of the factors that lead to unethical behavior so that they may prevent environments that lead to unethical behavior.

In this paper, we will further explore this theory, and go into further detail by exploring if short-term business goals compared to long-term business goals have an effect on unethical behavior. This is important because if there is a difference in unethical behavior between a short-term business frame of mind and a long-term business frame of mind, this will show that managers can reduce unethical behavior by changing the business frame of mind their employees are in. If a short-term business frame of mind is shown to produce more unethical behavior than a long-term business frame of mind (as we predict), managers can then reduce unethical behavior by eliminating employee's short-term deadlines and goals and instead having them focus on long-term goals. In addition to looking at frames of mind, we will also look at the motivations influencing business decisions. We will do this by engaging in both a qualitative analysis of the factors influencing the unethical behavior of business people as well as a quantitative survey exploring the effects of a business (long-term and short-term) and ethical frames of mind on unethical behavior.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Motivations behind Unethical Behavior

Significant research has been done on the motivations behind unethical behavior, which we will further analyze in our in-depth interviews. Cooper and Frank (1991), in a survey of Chartered Life Underwriters (CLUs) and Chartered Financial Consultants (ChFCs), identified the following factors influencing unethical behavior in businessmen. They are: (1) one's personal moral values and standards, (2) family and friends who provide support and insight in resolving ethical issues, (3) boss who controls the pressure employees have to compromise ethical standards, (4) company environment/culture which controls the pressure to compromise employee's ethical values to achieve organizational goals, (5) company management philosophy that emphasizes ethics in business operations, and (6) the professional codes of ethics of the American College and the American Society (Haron, Ishmail, & Razak, 2011). Also, research has repeatedly demonstrated that peer influence plays a major role in influencing ethical decision-making. The more the individuals observe peers engaging in unethical behavior, the more likely they are to engage in the same or similar activities (O'Fallon & Butterfield, 2012). Cooper and Frank identified six main factors influencing unethical behavior, including one's moral compass, the people around them, and the professional environment they are in.

Other factors influencing unethical behavior identified by Cooper and Frank (1991) is more to do with the goals set about by the company. Cooper and Frank point out that intense competition in the industry, which forces employees to focus on the bottom-line and not on business ethics, causes more unethical behavior. Also, measuring employee performance on the basis of end results without considering how ethical the means were to achieve these results promote unethical behavior (Haron, Ishmail, &

Razak, 2011). According to past research, short-term business goals leads to unethical behavior.

How we frame and expect others to behave also has an impact on our ethical decision making. Yamagishi's (1986, 1988, 1992) discussions on the indirect effect of sanctions, Messick's (1999a) framework on the connotative effect of decision frames in dependent variable "clusters", and discussions on the relationship between sanctioning systems and trust (Strickland, 1958; Kruglanski, 1970) all suggest that sanctioning systems effect not only cooperative behavior but also expectations of others' cooperative behavior. This is because of the positive association between behavior and expectations, such that decreased expectations would be associated with decreased cooperative behavior (Tenbrunsel & Messick, 1999). If one believed that others companies were behaving unethically, similar to peer pressure, they would feel more inclined to behave unethically. Thus, there is a strong relationship between one's behavior and their expectation of others.

Studies on the motivations behind unethical behavior show that the main influences are one's moral compass, the environment one is in, and peer pressure from fellow employees. This is important because, based on past research, this shows that if companies can change their environment to promote more long-term goals and reduce peer pressure, there could be less unethical behavior. With a changed environment promoting thinking in an ethical or long-term frame of mind, businesses can reduce unethical behavior.

Frames of Mind and Cooperation

Significant research has been done on how different frames of mind effect cooperation in an ethical dilemma. Pillutla and Chen (1999) have demonstrated that the frame of a dilemma can influence the tendency to cooperate: a dilemma framed in an economic context produces less cooperation than a dilemma framed in an ethical context. This is because with a dilemma framed in an ethical context, one thinks in a utilitarianism perspective and is concerned with the decision that maximizes the collective welfare. Thus, the dominant choice should be cooperation. With an economic frame, cooperation depends on the strength of the sanctioning system as well as if cooperation is the most profitable strategy (Kramer & Messick, 1996) As shown by past studies, the frame of a dilemma can influence the tendency to cooperate

Tenbrunsel and Messick (1999) extended this theory through examining how surveillance and sanctioning systems affect cooperative behavior. To do this, they put participants in an ethical dilemma and primed them by putting them in two frames of mind: a business frame of mind and an ethical frame of mind. Participants then chose whether to not cooperate and possibly save money or cooperate and help the environment. Results supported the hypothesis that different frames of mind are characterized by different processing effects and lead to different cooperation rates, since there was a significant difference between the frames of mind. When an ethical frame was adopted, 90 percent of the individuals cooperated, whereas when a business frame was adopted, 53.3 percent of individuals cooperated. This shows that, similar to past research, with an ethical frame of mind, individuals will cooperate because it is the decision that maximizes the collective welfare by helping the environment. With a business frame of mind, there is less cooperation because participants are concerned with profitability, which does not coincide with cooperation.

Thus, TenBrunsel and Messick concluded that with an ethical frame of mind, cooperation will be the dominant choice and will not be influenced by economic considerations. This theory is supported by Kramer and Messick (1996), who examined cooperative behavior in organizational dilemmas from an ethical perspective. They asserted that from the standpoint of ethical reasoning, moral choices go hand in hand with cooperative choices, independent of the basis for that reasoning. Thus, from the utilitarian perspective, they argued that the moral decision is the cooperative choice because that is the alternative that maximizes the collective welfare (Kramer and Messick, 1996). For example, from the research done by TenBrunsel and Messick, the utilitarian perspective would be to cooperate because that is the decision that would improve the environment and maximize the collective welfare. This shows that when an ethical frame of mind is invoked, individuals are more likely to behave ethically because they are concerned with maximizing the collective welfare.

With a business frame of mind, cooperation will depend on the strength of the sanctioning system as well as if cooperation is the most profitable business strategy. In other words, opposite of an ethical frame of mind, a business frame of mind does not have a dominant strategy. It rather produces a calculative cost-benefit process. This argument coincides with studies on punishment, which show that individuals engage in a utility calculation that compares the costs and benefits of the punishment. The higher the cost of punishment, the higher the expected cooperation (TenBrunsel & Messick, 1999). Therefore, when put in an ethical dilemma, a business frame of mind invokes a cost-benefit process in which one contemplates the benefits of unethical behavior (job advancement, monetary gain) versus the cost (being caught, punishment). With a business frame of mind, one is put in a calculative cost-benefit process.

This implies the following:

Hypothesis 1: *An ethical frame of character will positively influence ethical behavior*

Hypothesis 2: *A business frame of mind results in more unethical behavior than an ethical frame of mind.*

Hypothesis 3: *Short-term business goals lead to more unethical behavior than long-term business goals.*

Hypothesis 4: *Different personality traits and perception of others influence unethical behavior*.

RESEARCH OVERVIEW

We present two studies designed to test our hypothesis about the factors influencing the unethical behavior of business people. The in-depth interviews with professional businessmen in Study One allow us to intimately understand what businessmen consider to be factors influencing unethical behavior, and whether the situation one is in or one's character is more influential in unethical behavior (Hypothesis 1, 2, and 3). Study Two attempts to test the hypothesis by quantitatively testing the effect of different frames of mind on unethical behavior as well as testing how different personality traits and perception of others influence unethical behavior (Hypothesis 2, 3 and 4).

Study One

Method: This study involved in-depth interviews with six businessmen. The intended aim was to test whether unethical behavior is due to character or the situation one is and what frames of mind promote unethical behavior (H1,H2, H3). While the quantitative portion of the overall study will give results that can be used for comparative purposes, in-depth interviews allow a deeper understanding of the factors influencing the unethical behavior of business people. Because of the level of narrative specificity in-depth interviews provide, we chose it to use in understanding the factors influencing the unethical behavior of business people.

Participants and procedure: To ensure a mix of businessmen in different stages of their careers, the researchers used their social network to collect a variety of respondents as participants in the study. This mix is important because it ensures multiple perspectives for mutual confirmation of our data. This method, which ensures credibility, is referred to as triangulation of data methods (Shenton, 2004). There were three pairs of businessmen at different stages in their careers. Two businessmen were business owners (top level), while two others were mid-level managers (middle level), and two others were employees in large corporations (low level). In total, six participants were interviewed over a two-month period.

Interviews took place at the participant's home or at a communal space at a large Midwestern University. Out of the six participants, five were male and one was female. Most of the participants were between the ages of 25 and 35, with one participant being over 50. The interviews lasted an average of 9 minutes. To code the interviews and discover emerging themes, the researchers independently reviewed audiotapes and notes and collectively determined joint themes (Lincoln and Guba, 1995).

Themes/Results: Three main themes emerged from the in-depth interviews with businessmen: "Moral Compass", "Competitive Nature", and "Nature versus Nurture". Although all participants agreed that one's moral compass had a big influence on unethical behavior and monetary gain was a major motivation to behave unethically, they differed in other aspects depending on what stage of their career they were in.

Moral Compass

An overarching theme from the participants was the belief that all adults have a moral compass, or a person's ability to judge what's right and wrong and act accordingly. This moral compass guides one's views and actions in an ethical dilemma. A person with a strong moral compass will behave accordingly and choose the ethical decision, while a person with a weak moral compass will behave unethically.

Most of the participants believed that once your moral compass is set, you cannot change ethical behavior with education. If one does not have a firm moral compass set, education will help them set it. However, it was the opinion of most of the participants that education does little more once a moral compass is set. One participant even said, "For the truly ethical, an education about unethical behavior gets you to be less naïve, and it helps with exposure. However, it does not stop unethical behavior." Education about unethical behavior helps with setting a moral compass, but it does not stop unethical behavior.

Although most participants agreed that rigid penalties on unethical behavior might reduce unethical behavior in the workplace, they still believed that the main factor was not the rigid rules, but one's moral compass. Your moral compass will dictate whether you will follow the rules or not, not the severity or consequences that come with the rule.

One participant went as far as to say that rigid penalties would absolutely not help, because unethical people "will always find a way [to behave unethically]. They can interpret these rules or penalties any way they want and they will desperately do so." One's moral compass will dictate whether they will obey the rigid rules set in place against unethical behavior.

All adults have a moral compass. Education goes only so far as helping to set a moral compass. It does not help with reducing unethical behavior, since this is based on how strong one's moral compass is and their character. Also, rigid rules against unethical behavior are sometimes effective in the cost-benefit process, but one's moral compass will typically dictate whether employees will obey these rules.

Competitive Nature

The main topic discussed in the in-depth interviews was the motivations behind cheating. All participants thought that monetary gain was a big motivation to behave unethically, Other common motivations to behave unethically were personal advancement and power. All of these motivations, participants agreed, are driven by one's competitive nature, which is especially for strong for businessman. One participant went so far as to compare businessmen to professional baseball players, in that they are both extremely competitive. Because of this competitive nature, they will do anything to succeed, including behaving unethically. For professional baseball players, this typically means using steroids to make them stronger. For businessmen, this typically means falsifying financial statements to make them look better. Common answers to the motivations behind unethical behavior included monetary gain, personal advancement, and power, all of which are driven by one's competitive nature.

Participant's views on business goal influences on unethical behavior depended on what stage they were in of their career. The business owners believed that monetary gain and pressure to reach certain marks (short-term goals) was a big influence on unethical behavior. Employees feel pressure to meet certain deadlines and beat competitors, so they behave unethically to reach such goals. We believe that business owners believe this is the case because they like to think that they can control unethical behavior in the workplace. If they eliminate short-term goals in the workplace, for example, the business owners believe that there will be less unethical behavior. Business owners like to believe that they can control unethical behavior, which is why they believe that monetary gain and pressure to reach certain marks (short-term goals) are a big influence on unethical behavior.

The lower-level employees in large companies believed agreed with the business owners, saying that short-term goals are a bigger influence on unethical behavior. They also believed that monetary gain and pressure to reach certain marks (short-term goals) was a big influence on unethical behavior. We believe that the lower-level employees think this because they have had these experiences, in which they feel rushed to reach a short-term deadline and are tempted to take the "easy road" and behave unethically in order to reach this goal. Lower-level employees believe that short-term goals are a bigger influence on unethical behavior, mainly because they are experiencing these pressures to behave unethically in order to reach short-term deadlines.

The mid-managers, on the other hand, believed that long-term goals, rather than short-term goals, are a bigger influence on unethical behavior. They believed that long-term goals such as personal advancement and power were more influential in one's unethical behavior. This may be because they are currently in the middle of the process of getting to the top level, and have seen others who have behaved unethically in order to get to the top. Mid-managers believe that long-term goals are a big motivation behind unethical behavior, likely because they have seen fellow coworkers behave unethically for personal advancement.

Although all participants agreed that the competitive nature of businessmen was a big part of their motivation to behave unethically, they differed on what business goals lead to unethical behavior based on the stage they were in of their career. The top-level business owners and lower-level employees believed that short-term goals such as monetary gain and pressure to reach certain marks were a big motivation to behave unethically. Mid-managers, on the other hand, thought that long-term goals such as personal advancement and power were a big motivation to behave unethically. This difference in opinion is likely because of the business owner's belief that they can change unethical behavior by eliminating short-term goals, while the mid-managers have seen their fellow coworkers behave unethically and be rewarded with a promotion. Lower-level employees, similar to mid-managers, have personally experienced the pressures to behave unethically. However, they believe unethical behavior is due to achieving short-term goals, like meeting deadlines, than long-term goals, such as career advancement.

Nature versus Nurture:

Another main topic discussed in the in-depth interviews was whether unethical behavior is due one's character (nature) or the environment one is in (nurture). Again, these answers depended on what stage of their career the participants were in.

The two business owners had very similar views, with both saying that they believed that the environment, rather than character, was the main factor influencing unethical behavior. They believed this was the case because, in their opinion, unethical behavior is based on the level of temptation to do something unethical in a company. One of the business owners compared the job of janitor compared to a store manager to compare how the level of temptation influences unethical behavior. With a janitor, there is little temptation to behave unethically, because they have little control over company resources. With a store manager, there is a lot of temptation to behave unethically, because they have complete control of the store and its resources. Therefore, the store manager is more likely to do something unethical, such as stealing money from the cash register. The business owners believed that the opportunity to do something unethical is a main influence to behave unethically.

The business owners also believed that peer pressure was a big motivation to behave unethically. If enough people behave unethically, one is pressured to behave unethically in order to fit in. Not only are they pressured to behave unethically, but they will likely not even feel guilty because everyone is doing it. Peer pressure, along with the opportunity to do something unethical, is a big motivation behind unethical behavior. In short, the business owners believed that the environment (nurture) was a bigger influence on unethical behavior than one's character (nature).

The mid-managers and lower-level employees disagreed with the business owners, saying that one's character and how they are raised is more influential in unethical behavior. The situation could impact one's decision if one was "on the edge" and didn't have a set moral compass, but in general, it comes down to one's fundamental being and what they believe. It is not the environment (nurture) that one is in that effects unethical behavior, but instead the people in it and their character (nature).

Like the motivations behind cheating, the nature versus nurture answers depended on what stage of their careers the participants were in. For the top-level managers, they believed that the environment was more influential in unethical behavior. They likely believe this because the environment is something you can change easily, while character is hard to change. The mid-managers and lower-level employees believed that one's character was more influential in unethical behavior. They likely believe this because they believe they have good character, and are therefore ethical, while others who are unethical have bad character.

Discussion

The in-depth interviews indicated that one's perception of factors influencing unethical behavior depend on their job position. For business owners, they believe that unethical behavior is due to things that they can control, such as the environment and short-term goals. If they can make the environment one that discourages opportunity for unethical behavior, they can lead a company that has little unethical behavior problems. Mid-managers and lower-level employees, on the other hand, believe that unethical behavior is due to one's being and character. They consider themselves to be ethical because they have good character.

Study Two

Method: This study quantitatively investigates the factors influencing the unethical behavior of business people It does this by extending the work of Tenbrunsel and Messick (1999), who examined how surveillance and sanctioning systems affect cooperative behavior. To do this, 103 undergraduate students at a Midwestern university participated in an ethical dilemma scenario, shown in Appendix 1.

Participants were randomly ordered into three frames of mind: an ethical frame, a short-term business frame, and a long-term business frame. This was done by priming participants of different business goals. Those in an ethical frame of mind were told: *"the primary goal for the company is to maintain shareholder trust"*. Those in a long-term business frame of mind were told: *"the primary goal for the company is to maximize long-term shareholder's value"*. Those in a short-term business frame of mind were told: *"the primary goal for the company is to maximize quarterly profitability"*.

After the framing, participants were then asked what percentage of the time they would operate the scrubbers (<80%, 80%, or >80%) and their reasoning behind this. This question was aimed at determining, given the frame of mind they were in, if the participant would be ethical and cooperate (80% or >80%) or not (<80%). Following TenBrunsel(1999), there would be a significant difference in cooperation between the ethical frame of mind participants and the business frame of mind participants. This is because the ethical frame of mind participants would choose the ethical decision (80% or >80%) more than the business frame of mind participants, since they are focused on what is ethical and not on profitability.

We also had the hypothesis (H3) that there would be a significant difference in answers between the short-term business frame of mind participants and long-term business frame of mind participants. This is because the short-term business frame of mind participants would be more focused on meeting deadlines and behave more unethically (<80%) than long-term business frame of mind participants, who would be more focused on long-term profitability.

Participants were also asked several other questions related to the ethical dilemma. This included asking them to estimate the percentage of other manufacturers who would operate the scrubbers at less than 80% of the time, how much environmental damage would be caused by operating the scrubber at less than 80%, the likelihood of getting caught if the scrubbers were operated at less than 80%, and the responsibility of the plant manager. These additional questions were aimed to figure out their perception of other companies and their cost-benefit process based on the frame of mind the thought they were in.

Results

As was the case in previous research, results showed that the frame of a dilemma influences the tendency to cooperate. Most participants who operated the scrubbers at >80% responded they chose this option because it was best for the environment (ethical frame of mind). Most who operated the scrubbers at 80% responded they chose this option to comply with regulations. Most who operated the scrubbers at <80% responded they did this for cost savings(business frame of mind). There was a significant difference ($p<.05$) in operating scrubbers percentage (the ethical dilemma) depending on the three frames of mind. Participants were separated into these three frames of mind through a manipulation check based on the month in which they were born.

Multivariate Analysis: A 3(frame of mind) x 3 (operating scrubbers percentage) between-subjects MANCOVA was used to analyze the study. Results showed that there was a significant difference in operating scrubbers percentage depending on frame of mind (p=.034), but there was no significant difference in other operating scrubber percentage (p=.888), environmental damage (p=.314), and likely cause (p=.620). This provides support for our hypothesis that there is a significant difference in cooperation depending on which frame of mind you are in.

Next, we computed follow up univariate tests to further analyze the frames of mind. The one-way ANOVA compared the percentage of the time managers would operate the scrubbers from the three frames of mind. Pairwise comparisons shows a significant difference in operating scrubbers percentage between the ethical frame of mind and short-term business frame of mind (minimum mean difference: .324; P=.029). There also is a significant difference in operating scrubbers percentage between the ethical frame of mind and long-term business frame of mind (minimum mean difference:.365;P=.019). Pairwise comparisons of means shows that participants in the ethical frame of mind had a much higher mean (2.285) than those in the business frame of mind (1.961 and 1.919, respectively) when it came to operating scrubbers percentage. This shows that those in the ethical frame of mind were much more likely to operate the scrubbers at a higher percentage, which was the more ethical decision. Therefore, the results support hypothesis 2 that a business frame of mind results in more unethical behavior than an ethical frame of mind.

The pairwise comparisons supports our hypothesis (H2) that a business frame of mind results in more unethical behavior than an ethical frame of mind. However, it disproves our hypothesis that short-term business goals lead to more unethical behavior than long-term business goals (H3). This is because there is no significant difference in operating scrubbers percentage between the short-term business frame of mind and long-term business frame of mind (minimum mean difference: .041, P=.781).

Discussion:

The purpose of this study was to determine whether a short-term business frame of mind would lead to more unethical behavior than a long-term business frame of mind. According to our findings, this was not the case, as there was no significant difference between the two in the percentage of the time they would operate the scrubbers. However, TenBrunsel's (1999) hypothesis that there is a significant difference between an ethical frame of mind and business frame of mind was supported in this study, as the ethical frame of mind participants tended to operate the scrubbers at a higher percentage. Based on the results, we can conclude that it doesn't matter what business frame you are in; the only thing that matters is if you are in an ethical or business frame of mind. Also, we can conclude that judgments of others and assessment of risk does not factor into your decision, as there was no significant difference between factors depending on the frames of mind.

GENERAL DISCUSSION, IMPLICATIONS AND CONCLUSION

This work expands on the existing knowledge of how different frames of mind affect unethical behavior. Through in-depth qualitative interviews we discovered that businessmen's opinions on the factors influencing unethical behavior depended on their job position. Business owners believed that unethical behavior stems from things they can control, such as the environment or short-term goals, while managers believed that unethical behavior comes from your character and what you believe. The both concluded, however, that businessmen's competitive nature and the motivation of monetary gain are main influences on unethical behavior.

Based upon the quantitative study, we can conclude that there is a significant difference in unethical behavior between those in a business frame of mind versus those in an ethical frame of mind. This is because the business frame of mind participants are focused on profitability, which may lead them to behave unethically, while the ethical frame of mind participants are focused on the alternative that maximizes the collective welfare.

A surprising result from the study was the finding that it doesn't matter what business frame you are in; the only thing that matters is if you are in an ethical or business frame of mind. Previously, we thought that the short-term business frame of mind participants would behave more unethically than the long-term business frame of mind participants. This was not the case, as there was no significant difference between the two frames of mind. This shows that managers should not be concerned with eliminating short-term goals or deadlines, for it does not effect one's unethical behavior. Instead, they should focus on putting their employees in an ethical frame of mind when faced with an ethical dilemma, since this was the frame of mind that produced significantly more cooperation.

This work is not without limitations. There is the issue of using a possible convenience sample for the in-depth interviews, though this method was chosen to be able to focus in on businessman at different stages of their careers. While the purpose of this paper is to highlight the factors influencing the unethical behavior of business people, the ethical dilemma of the operating scrubbers for Study Two may have limited or altered some responses, and perhaps future studies could test the hypothesis using a different ethical dilemma. Future research would benefit from investigating the factors influencing the unethical behavior of business people.

This study has demonstrated that there is a need to further identify and study factors influencing the unethical behavior of business people. Specifically, there is need for further research into how managers can put their employees in an ethical frame of mind, since this is the frame of mind that leads to the most cooperation and ethical behavior. Academic professionals can use this research as further encouragement that if they instill in their students a ethical frame of mind, this will lead to less unethical behavior not only in the classroom, but when they go out into their professional jobs. Business professionals can use this research as motivation to instill in their employees an ethical frame of mind, which leads to more cooperation and less unethical behavior. Business professionals can also use this research to realize that eliminating short-term goals and deadlines does not reduce unethical behavior, as there was no significant difference in unethical behavior between short-term business frame of mind participants and long-term business frame of mind participants. All that matters is putting your employees in an ethical frame of mind when faced with an ethical dilemma, because this is the frame of mind that leads to the most cooperation.

Appendix 1: Scenario Used

> *You are Fred, a manager who supervises a moderate-sized manufacturing plant. The manufacturers in this industry face the problem of emission of a toxic gas, VS-1, which has been produced during the production process.*

Environmentalists are becoming increasingly concerned with the problem and are proposing that all smokestacks be equipped with scrubbers that eliminate the toxic gas, if they are operated 100% of the time.

With the potential threat of the environmentalists lobbying for 100% utilization of the scrubbers, the manufacturers in the industry have come together and reached an agreement in which all manufacturers will install scrubbers and run them 80% of the time.

This solution is acceptable to the environmentalists and will avoid legislation, which is estimated to cost $3 million in legislation and compliance fees.
There are two options for your company:
(1) run the scrubbers 80% of the time at an estimated cost of $1.2 million or
(2) run the scrubbers less than 80% of the time, with each 20% interval of operating time costing $0.3 million (i.e, 20% = $0.3 million cost; 40% = $0.6 million cost)

Other manufacturers have the same choice. If most of the other manufacturers cooperate by running their scrubbers 80% of the time, there would be no legislation and no compliance costs.

However, if most of the other manufacturers defect and run their scrubbers less than 80% of the time, legislation and compliance costs will be incurred.

To enforce the agreement to operate the scrubbers 80% of the time, representatives of the industry will conduct random checks of some manufacturers. You estimate that there is at least a 50% chance of being inspected and that, if you are and found to be operating your scrubbers less than 80% of the time, the fine ($2,000,000) will be substantial.

Your perception of whether or not legislation will occur corresponds with your perception of the decisions of other manufacturers.

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