BREAKING THE RULES: THE FAILURE OF MORAL AND LEGAL
PROHIBITIONS AGAINST CORPORATE CRIME

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Abstract

We combine prior research on ethical decision-making in organizations with a rational choice theory of corporate crime from criminology to develop a model of corporate offending that is tested with a sample of U.S. managers. Despite demands for increased sentencing of corporate offenders, we find that the threat of formal sanctions does not directly affect the likelihood of misconduct. Managers’ evaluations of the ethics of the act have a significant effect, as do outcome expectancies that result from being associated with the misconduct but not facing formal sanctions. The threat of formal sanctions appears to operate indirectly, influencing ethical evaluations and outcome expectancies. There is also support for the influence of obedience to authority, with managers more likely to engage in misconduct if ordered to do so by a supervisor.
“In my lifetime, American business has never been under such scrutiny. To be blunt, much of it is deserved.”
Henry Paulson, Chief Executive, Goldman Sachs

“Corporate America has got to understand there’s a higher calling than trying to fudge the numbers.”
President George W. Bush

Why do managers engage in unethical and illegal behavior? What are likely to be effective remedies to this misconduct? The statements above were in response to a series of scandals involving Enron and other firms that shook investor confidence, contributing to a substantial decline in equity markets worldwide, and caused public respect for business executives to plummet (Bush, 2002; Byrne, 2002; Economist, 2004). An early response to the crisis of confidence in business was the proposal by President Bush that the maximum jail sentence for fraud by business executives be doubled to 10 years (Michaels & Spiegel, 2002). This announcement met with skepticism, not least because there had yet to be any indictments of Enron executives, months after the discovery of apparent fraud (Ackman, 2002).

Such skepticism may be justified. Despite frequent demands for stronger regulations and increased sentencing—and for the enforcement of existing regulations—our study suggests that the threat of formal sanctions may be ineffective, at least in isolation. Further, as the quote from President Bush implies, there might also be a role for ethics, though researchers have only rarely considered the two in combination. In contrast, this paper examines the role of both legal and moral prohibitions against corporate crime. We view the misconduct evident in recent business scandals as “rule-breaking,” or a failure of moral and legal prohibitions. We draw on criminology as well as the management literature to develop and test a model of corporate offending, identifying how moral evaluations of the act, formal sanctions and other possible outcomes (notably informal sanctions, such as the loss of respect of family and friends) may serve to inhibit a manager from engaging in illegal and unethical conduct.
In his seminal work, Sutherland defined white-collar crime as “crime committed by a person of respectability and high social status in the course of his occupation” (1983, p. 7; see also Sutherland, 1940). This definition might include acts that solely benefit the perpetrator (e.g., embezzlement). Our interest, however, is in acts that are intended to benefit the organization, though they might also be of benefit to the individual perpetrating the acts. This is consistent with Braithwaite (1984, p. 6) who defines corporate crime as the “conduct of a corporation, or of employees acting on behalf of a corporation, which is proscribed and punishable by law.”

According to Jones (1991, p. 367, emphasis in original), “an unethical decision is either illegal or morally unacceptable to the larger community.” Our study focuses on acts of corporate crime that are unethical, at least by this definition. As Jones (1991) acknowledges, there are limitations to the definition and there are also subtleties to the relationship between the law and ethics. For our purposes, it is sufficient to observe that illegal and unethical behaviors often share common characteristics and lend themselves to empirical inquiry in combination.

In the next section, we review the empirical research and conceptual models of (un)ethical decision making in organizations. We then turn to criminology, where research on crime by firms and their managers has largely gone unnoticed within management, including a rational choice theory of corporate crime. Building on the two literatures, we propose our model and formulate hypotheses that are tested with a sample of managers. We conclude with a discussion of our findings, including their implications for managers and regulators.

ETHICAL DECISION MAKING IN ORGANIZATIONS

Empirical research of ethical beliefs and decision making in business has examined the influence of factors associated with the individual decision maker (e.g., age, gender), but findings overall are mixed for many of these factors (Ford & Richardson, 1994; Loe, Ferrell & Mansfield, 2000) and these findings have only limited value in providing guidance on measures.
to inhibit organizational misconduct. Because their relative contribution to ethical decision-making is unknown, basing interventions on these variables, even if the findings were reliable and generalizable, would be highly suspect (if not discriminatory).

Findings are also mixed for many situational factors in ethical decision making (Ford and Richardson, 1994; Loe, et al., 2000), but these findings appear to offer greater scope for the development of interventions that might inhibit organizational misconduct, though there is again little knowledge of the relative contribution of these variables and implementation problems besides. For example, while the role of peers and superiors in ethical decision making appears to be important, this finding merely leave the problem one step removed: what interventions are required to ensure that these managers encourage ethical behavior and do not engage in ethical misconduct themselves? Similarly, while findings are supportive of efforts to build an ethical climate (e.g., via codes of conduct, ethics training and supportive top management), the scandals referred to above often involved firms with ethics programs and senior management who had expressed support for ethics (e.g., Enron had an 80-page ethics code). Clearly, ethical compliance systems need to be organized in meaningful ways, but research to date provides insufficient guidance on this difficult task (Weaver & Trevino, 1999).

While much of this body of research is primarily descriptive (e.g., surveys, correlations between demographic characteristics and ethical decision making), it does have a basis in theoretical models of ethical decision making in organizations. Ferrell and Gresham (1985) proposed a multi-stage contingency model, with ethical decision making contingent upon individual factors (including use, knowingly or unknowingly, of moral philosophies), significant others (e.g., peers, superiors) and opportunity (e.g., rewards, absence of punishment). Hunt and Vitell (1986, 1993) proposed a model incorporating moral philosophy, with ethical judgments seen as the outcome of deontological (duty-based) judgments and teleological (consequences-
based) judgments. Also included were situational factors constraining behavior and the antecedents of the cultural, industry and organization environments and the decision maker’s personal experiences. We adopt some elements of these two models in our research, including opportunity, significant others and their use of moral philosophy. We also draw on the work of Trevino and Youngblood (1990) and Jones (1991).

Trevino’s (1986) person-situation interactionist model of ethical decision-making combined individual variables and situational factors, with cognitions of right and wrong determined by the individual’s stage of cognitive moral development. The relationship between these cognitions and (un)ethical behavior was said to be moderated by individual factors (ego strength, field dependence, locus of control) and situational moderators (immediate job context, organizational culture, characteristics of the work). It was a variant of this model that was tested using path analysis by Trevino and Youngblood (1990), with social learning, stage of cognitive moral development and locus of control hypothesized to influence ethical decision making, together with the mediating influence of outcome expectancies. We incorporate outcome expectancies and a similar analytical technique in our research (see Figure 1).

However, in contrast to Trevino and Youngblood, we give more explicit attention to the role of moral reasoning. This is consistent with Jones (1991), who provided a synthesis of ethical decision making models using Ferrell and Gresham (1985), Hunt and Vitell (1986) and Trevino (1986), together with a further model incorporating Fishbein and Ajzen’s (1975) theory of reasoned action (Dubinsky & Loken, 1989). His synthesis was structured around Rests’ (1986) four-component model of ethical decision making, which suggested that a moral agent first
recognizes a moral issue, then makes a moral judgment, establishes moral intent and then engages in moral behavior. Jones’ model was issue contingent, recognizing that characteristics of the issue itself—collectively called moral intensity— Influence ethical decision making. The model also included organizational factors, such as obedience to authority (also included in our model). Empirical support has been found for Jones’ moral intensity construct (e.g., Flannery & May, 2000; Morris & McDonald, 1995). These findings lend further support to the role of moral evaluations within our model (moral intensity is not directly incorporated, but the illegality of the acts examined may be assumed to provide a sufficient level of moral intensity).

Morris, Rehbein, Hosseini, and Armacost (1995) also highlighted a role for ethics within a study to identify factors explaining CEOs’ intentions to engage in two questionable and generally illegal business practices. They found that ethical intentions of CEOs may be more affected by the decision maker’s predisposition (to engage in unethical conduct) than by environmental pressures or organizational/situational characteristics. However, their study did not ask respondents to evaluate the ethics of the acts in question. This is one of the few studies of ethical decision making in the management area to have explicitly incorporated insights from criminology. Following the lead of Simpson and Piquero (2002), our study draws more substantially from the criminology literature—especially more recent research on corporate crime deterrence—not least in light of the paucity of empirical research and robust explanations of unethical conduct in the management literature.

CORPORATE CRIME DETERRENCE

Criminologists have long considered the relationship between the threat of formal legal sanctions and crime. Although scholars have employed both objective and perceptual models of deterrent processes (Paternoster, 1987), perceptual models dominate. Perceptual deterrence assumes that the true impact of criminal sanctions on offending depends on an individual’s
assessment of his/her own risks of getting caught and punished. The main components of
deterrence include celerity (how swiftly sanctions are imposed), certainty (how likely sanctions
are to occur), and severity (the degree of consequence associated with the sanction). Each of
these components is hypothesized to negatively affect crime, i.e., when sanctions are swiftly
imposed, highly likely, and consequential (punitive), criminal behavior will abate. Additionally,
deterrence is theorized to work at two levels. Specific deterrence occurs when an offender does
not re-offend (or lowers his/her offending level in the future) as a consequence of punishment.
General deterrence occurs when punishment levied against individual offenders lowers the
offending risk in the general population.

Deterrence theory assumes that human behavior is reasoned and governed by free will
and that persons will choose to be lawful if the pain associated with offending is greater than the
pleasure it may bring (Beccaria, 1963). Research on the effects of rewards and sanctions on
ethical decision-making in organizations reflects similar assumptions (e.g., Ferrell & Gresham,
1985). For deterrence scholars, the pain of offending has mainly been conceptualized in legal
terms (i.e., the threat and costs associated with criminal prosecution) and, until recently, there
was little emphasis placed on the benefits of crime as part of the rational calculus. However, with
greater theoretical integration in criminology (post-1980), deterrence theory began to incorporate
ideas from social control (e.g., the extra-legal costs associated with offending, normative
beliefs), social learning (moral habituation), and rational choice (e.g., the benefits of
crime/noncrime) perspectives.

Tests of deterrence theory have overwhelmingly concentrated on traditional street crime
populations. Early objective studies—in which deterrent effects generally were found for
certainty but not severity (given measurement difficulties, celerity is rarely tested in deterrence
research)—were unsophisticated methodologically (Nagin, 1978). Perceptual deterrence studies,
which controlled for more variables and were better able to model temporal ordering, were less supportive of the deterrence doctrine—especially once informal sanctions like stigmatic, commitment, and attachment costs were considered (Paternoster, 1987). However, there was some evidence that formal sanctions worked in conjunction with the perceived threat of social disapproval and moral commitment to inhibit illegal behavior (Grasmick & Green, 1980; see also Bachman, Paternoster, & Ward, 1992; Grasmick & Bursik, 1990).

Other criminologists, like Williams and Hawkins (1986), speculated that formal and informal sanctions did not operate independently of one another (Andenaes, 1974). Rather, the threat of legal sanctions (like arrest and prosecution) should trigger informal controls over behavior (shame and embarrassment). For example, in a study of wife assault, Williams and Hawkins (1989: 175) found that arrest was meaningful to men primarily through “the indirect costs that it poses for them in their social environments.” Even though respondents did not feel, on average, that going to jail for battering was likely (36%) or that they were apt to lose their jobs as a consequence of arrest (27%), the prospect of being fired, loss of self-respect, and social disapproval from significant others generated a sense of fear about arrest. However, other scholars have failed to replicate this finding with other types of illegal behavior (Bachman et al., 1992; Grasmick & Green, 1980; Nagin & Paternoster, 1991).

A role for informal sanctions is incorporated within our model as outcome expectancies. The deterrent effect of informal sanctions may be contingent on an individual’s personal capital levels. Nagin and Paternoster (1994), for instance, found that sanctions deter best under conditions of high personal capital investment. Thus, the relationship between formal and informal sanctions may be particularly relevant for white-collar offenders—a set of offenders whose arrest probabilities are presumed rare, but who are also believed to have high indirect costs associated with arrest (Klepper & Nagin, 1989).
Unfortunately, in the white-collar and corporate crime area, empirical studies of
deterrence processes are rare. Most research in this area concentrates on white-collar offenders—
tax cheating and other frauds perpetrated by individuals instead of corporate violators (e.g.,
violations associated with accounting irregularities, environmental emissions, employee safety
and health, etc.). Results are inconsistent and inconclusive in those studies that focus on
corporate offending (see Simpson, 2002).

In a deterrence study of price-fixing in the white bread industry, Block, Nold, & Sidak
(1981) find specific and general deterrent effects for stepped up enforcement practices and more
severe punishments. Simpson and Koper (1992), on the other hand, found little evidence of
specific deterrence among a sanctioned group of anti-competitive firms in basic manufacturing
industries. The rate of home repair fraud in Seattle declined after the number of convictions and
severity of punishment against fraudsters increased—punishments that were publicly
communicated via press releases (Stotland, Brintnall, L’Heureux, & Ashmore, 1980). Yet
Jesilow, Geis, and O’Brien (1986: 222), using an experimental design, offer evidence “that
media attention and other interventions have no effect … on auto repair fraud.”

With the exception of the Jesilow et al. study, the research on corporate crime
summarized above relies on “objective” measures of deterrence. More recently, criminologists
have drawn from a rational choice model to predict corporate misconduct (Braithwaite &
Makkai, 1991). A rational choice (or subjective utility) model theorizes that the crime choice
will be affected by offender perceptions of risk, effort, and reward (Becker, 1968). However,
due to severe limitations in the strict economic model as it was applied to crime (see, e.g., Clarke
and Felson, 1993:5), criminologists have modified the perspective to give weight to concepts
from disciplines other than economics—especially the role of non-instrumental motives for
crime and inhibitions against it. Paternoster and Simpson (1993), for instance, predict that the
offending decision will be affected by: (1) the perceived benefits of legal noncompliance for oneself and the company, (2) the perceived formal and informal sanctions directed against oneself and the company, (3) moral inhibitions against the act, (4) the organizational context, and (5) firm characteristics. Here it is assumed that self-interest is modified by ethics and that behavior (e.g., the pursuit of self-interest) is guided by norms, custom, and procedures of organizations (Koford and Miller, 1991). As Vaughan (1998:33) highlights, “decision-making… cannot be disentangled from social context, which shapes preferences and thus what an individual perceives as rational.”

The Paternoster and Simpson (1993) approach is broadly consistent with the findings of research on ethical decision-making (e.g., role of rewards and sanctions, organizational context, etc.). Perhaps surprisingly, however, up to this point the two literatures have coexisted with few attempts made to combine their insights. For example, the rational choice model gives little attention to the role of significant others, one of the more compelling findings of the ethical decision making literature, while the latter largely ignores the effects of potential legal sanctions for unethical and illegal conduct. Recent work by Simpson and Piquero (2002) emphasizes the need to couple these literatures into an integrated organizational theory.

The rational choice model also presumes that the conditions that give rise to offending may be unique across offense types (Cornish & Clarke, 1986). Thus, crime specific models are necessary—at least initially, to explore conditions that give rise to offending outcomes. Likewise, researchers on ethical decision-making have argued for issue specificity, particularly if their studies rely upon Ajzen’s theory of planned behavior and Jones’ moral intensity construct (e.g., Flannery & May, 2000). Nonetheless, as later discussed, we believe there is scope for generalization, at least with relatively clear-cut issues of illegal and unethical conduct.
Empirically, the rational choice model of corporate offending has produced mixed deterrence results. Braithwaite and Makkai (1991: 29) discovered only one formal sanction measure to have the expected deterrent effect on regulatory compliance—leading the authors to declare the deterrence model “a stark failure”. A later study also found a lone deterrent effect, but even this outcome was not uniform across executives. Deterrence was observed only for managers who scored low on emotionality (Makkai & Braithwaite, 1994). Paternoster and Simpson (1996) found stronger deterrent effects. However, sanction threats (both formal and informal) were salient primarily among respondents with low moral restraint (using a unidimensional measure of how “morally wrong” respondents judged the act). Thus the behavior can be judged so immoral as to be outside the realm of contemplation for persons with strong moral beliefs and sanctions are irrelevant. Paternoster and Simpson also found that personal and corporate benefits of offending were significantly associated with offending propensity.

Overall, the small number of corporate deterrence studies coupled with contradictory findings leaves little room from which to draw firm conclusions. Results from other deterrence research highlight the need to measure deterrence as a perceptual process; to disentangle formal from informal sanction threats; and to include measures that capture the benefits of crime along with its cost. The limited evidence from the corporate crime literature indicates that formal legal sanctions may deter offending, but primarily among persons who are not morally habituated (Paternoster & Simpson, 1996) or who rank low on emotionality (Makkai & Braithwaite, 1994). The processes through which sanctions affect decision-making are, as of yet, not well understood. This study aims to improve understanding of corporate offending by drawing on the ethical decision making literature as well as criminology to develop and test a model that focuses on the interplay of ethical judgment and the threat of formal and informal sanctions.
HYPOTHESES

Our model incorporates key constructs predicted to influence corporate offending (see Figure 1). The constructs of formal sanctions, moral evaluations, outcome expectancies, and obedience to authority are treated as latent variables that are not observed but relate to multiple observed variables (or indicators). Further, these constructs are hypothesized as causally related to each other and to the dependent variable of corporate offending. Thus, in contrast to many prior studies, we use structural equation modeling to test our model statistically.

Theoretical accounts of ethical decision making in organizations suggest that the decision to engage in an unethical act will reflect “opportunity” (Ferrell & Gresham, 1985) or, more specifically, perceived rewards and punishments for the action (Ferrell, Gresham & Fraedrich, 1989; Hunt & Vitell, 1986; Jones, 1991; Trevino, 1986). Empirical research provides some confirmation of the role of rewards and sanctions (Baumhart, 1961; Hegarty & Sims, 1978; Trevino & Youngblood, 1990; Hunt & Vasquez-Parraga, 1993). In the case of behavior that is both illegal and unethical, legal sanctions are a possible consequence and thus a potential barrier to engaging in the act.ii This is explicit within rational choice theories of corporate crime (Paternoster & Simpson, 1993), with the prospective offender’s assessment of benefits and costs incorporating assessments of the threat (certainty and severity) of perceived formal sanctions. Hence, we hypothesize:

Hypothesis 1. The perceived threat of formal civil, regulatory or criminal sanctions directly inhibits corporate offending such that the greater the perceived threat of formal sanctions, the less the likelihood of corporate offending.

Nonetheless, research suggests that formal sanctions may not be perceived as highly likely. Williams and Hawkins (1989), as earlier discussed, found that men on average believed there was only a 36% likelihood of arrest for spousal assault. Similarly, Grasmick & Green (1980) asked a random sample of adults from a Southwestern metropolitan community about
their perceived arrest chances for various crimes. Based on a 4-point scale (where 4 = definitely would be arrested, 3= probably would be arrested, 2= probably would not be arrested; 1= definitely would not be arrested), the authors report that respondents generally did not believe that the chances of arrest were high should they engage in a variety of common offenses. For instance, most believed they probably would not be arrested for petty theft (2.4 mean), gambling illegally (2.1), tax fraud (2.4), and littering (1.95). The perceived chances of arrest were somewhat higher for battery (2.95) and driving under the influence (3.0). For these offenses, the mean score is closest to an average score of 3 indicating that respondents believed that they probably, but not definitely, would be arrested. In a later study by Grasmick and Bursik (1990) that used a similar scale, population sample and offense types, the authors discovered somewhat higher means of perceived arrest likelihood for participation in tax cheating (2.87 mean), petty theft (2.89), and drunk driving (2.75). Because these mean scores are closer to 3 than 2, respondents feel their actions would probably result in an arrest for these crimes. Overall, however, it is clear that despite frequent demands for stronger regulations or increased sentencing, formal sanctions may not be seen as certain (i.e., definitely would result in arrest) and thus may not directly inhibit corporate crime.

This suggests that formal sanctions are not irrelevant, but may operate indirectly, mediated through other variables. Thus the real threat of formal sanctions may lie in setting expectations as to related outcomes, such as loss of respect of family and friends. These outcomes or “informal sanctions” (Paternoster & Simpson, 1993) may reflect the signaling by formal sanctions of the acceptability of certain conduct. Thus, the offender might not “get caught”, but knowledge of the act becomes known and the existence of formal sanctions guides his or her sense of social disapproval or opprobrium. Hence:
Hypothesis 2a. The perceived threat of formal sanctions will be mediated through expectancies as to the outcome of the act.

Outcome expectancies also are expected to act directly on likelihood of engaging in the act (Ferrell & Gresham, 1985; Trevino & Youngblood 1990). Consistent with Paternoster and Simpson’s integrated rational choice perspective, when managers think that the firm or themselves will benefit in some way from the illegal act (anticipate positive outcomes), offending likelihood will increase. On the other hand, because managers also seek social approval from significant others, offending should be deterred if they feel those relationships would be damaged as a consequence of act discovery (again, informally rather than formally). More specifically, Jones and Ryan (1998: 433) have referred to “moral approbation” as the desire of moral agents to be seen as moral by themselves or others. Offending likelihood would also decrease if managers anticipated that the reputation of the firm would be tarnished. Thus:

Hypothesis 2b. The more negative are perceived outcome expectancies from engaging in the act, the less the likelihood of engaging in the act.

The law is founded on societal norms regarding right (ethical or moral) conduct. Formal sanctions are an important indicator of the morality of certain conduct and thus will influence the individual’s evaluations of the ethics of the act as well as his or her perceptions of the judgments of others. Moreover, breaking the law is in itself generally considered unethical. Hence:

Hypothesis 3a. The perceived threat of formal sanctions will be mediated through moral evaluations of the act.

In addition to “rules” in the law, managers are also likely to base their decisions regarding corporate offending on their moral evaluation of the act. Theoretical models of ethical decision making include moral philosophy or cognitions of right and wrong (Ferrell & Gresham, 1985; Hunt and Vitell, 1986; Trevino, 1986) and personal moral obligation has been empirically investigated in an organizational ethical decision making context (Flannery & May, 2000). Thus,
formal sanctions may operate through an individual’s perceptions of “right” and “wrong” or moral evaluations, but ethical evaluations are likely to be formed independently as well as influenced by a perceived threat of formal sanctions. Hence:

Hypothesis 3b. Moral evaluations of the act directly inhibit corporate offending.

However, we might reasonably anticipate that moral evaluations also inform outcome expectancies. Individuals might reasonably anticipate being “punished” for engaging in acts considered unethical. Hence, we also predict that:

Hypothesis 3c. The less ethical the moral evaluation of the act, the more negative are perceived outcome expectancies.

Finally, within an organizational context, we would expect a role for significant others in the workplace and, more specifically, that some individuals would obey orders from a superior even when the acts involved are unethical (Ferrell & Gresham, 1985; Jones, 1991). Simpson and Piquero (2002) suggest that this reaction stems from the way managers see themselves as actors within an organizational bureaucracy. As subordinates, employees can claim a lack of responsibility for committing an illegal act when ordered to do so—effectively splitting the object self from an acting self—to use Coleman’s terms (1990). This idea is related to locus of control, which has received extensive scrutiny in many contexts, including ethical decision-making. Persons with an external locus of control are associated with greater likelihood of engaging in unethical conduct than an internal locus of control because the former are influenced more by others’ definitions of right and wrong than by personally held convictions (Trevino, 1986; Trevino & Youngblood, 1990). Hence:

Hypothesis 4. Obedience to authority influences the likelihood of corporate offending. Individuals are more likely to engage in the (unethical and illegal) act when ordered by a supervisor than when making the decision him/herself.
We also anticipate that obedience to authority brings a diminished sense of personal responsibility and thus affects outcome expectancy as well as likelihood of engaging in the act. Simpson and Piquero (2002) suggest that authority structures within the corporate hierarchy allow those who take orders to distance themselves from behavioral responsibility. This separation of the object self from the acting self (Coleman, 1990) should serve to diminish the perceived consequences of ordered actions, whether they be positive or negative.

Hypothesis 4a. Individuals will perceive the outcome of an (unethical and illegal) act to be less negative when ordered by a supervisor than when making the decision to engage in the act him/herself.

METHODS

Respondents and Procedure

We tested our model and hypotheses with 233 observations from 78 managers using a survey instrument that comprised three scenarios, each followed by 32 questions that related to the situation described in the scenario, and concluded with 14 questions about the respondent and his or her organization. Each scenario described a hypothetical situation where a manager decides whether to engage in an unethical and illegal act: price-fixing, bribery, or violation of emission standards. While the act required was identically described (e.g., “meet with competitors to discuss product pricing for the next year”), its context differed, with specific features of each scenario randomly assigned (e.g., a firm would be described as diversified or not; benefits accruing to the firm from engaging in the act included saving the firm a large or a small amount of money). A sample of three vignettes (for each offense type) is reported in Appendix A.

In every case the manager decides to engage in the illegal act and the first question asked of respondents is their likelihood of acting as the manager did under the circumstances. Respondents are then asked how realistic they found the scenario, how much their career might
be advanced by doing as the manager did in the scenario and how thrilling this would be, and their ethical evaluations of the act. The next set of questions asks about the likelihood of formal sanctions (criminal, civil and regulatory). These questions are followed by questions asking about the likelihood of various other possible outcomes (e.g., dismissal) under the assumption that formal sanctions did not result (i.e., if they were not “officially caught”). The final set of questions for each scenario asks about respondents’ sense of how severe (how much of a problem) formal sanctions and other possible outcomes would be for themselves and the depicted firm. Questions about the respondent and his or her organization come after the final questions for the third scenario (see Table 1).

Our preference for a sample comprising practicing managers of various ranks together with the length of the survey instrument necessitated drawing respondents from three sources. The first source was a group of managers from a subsidiary of a Fortune 500 U.S. consumer goods company. The second group of managers was attending an executive MBA program at a mid-Atlantic university. The final group of respondents was drawn from a group of MBA students at the same university. Statistical tests were conducted to confirm the appropriateness of combining these samples.

The first group of respondents was recruited through a senior vice president who distributed the questionnaire to approximately 100 managers primarily located within the finance and finance-related areas (e.g., audit) of the subsidiary. Our cover letter stressed the anonymity of the survey and provided an envelope so that the completed questionnaire could be returned directly to us. We received 31 completed questionnaires, for a response rate of 30%. The
research instrument also was administered to the groups of executive MBA and full-time MBA students in a classroom setting. Those interested in participating were asked to complete the questionnaire outside of class and return it at the next class meeting or to a sealed box in a central location. We received 47 completed questionnaires from the 128 potential participants, for a response rate of 37%. Thus our overall response rate is 34%.v

The unit of analysis in this research is the specific offending judgment tied to each scenario. The assumption is that each scenario presents the respondent with a set of conditions that will affect his or her choice (in this case, to offend). Hence, with 78 usable questionnaires, each with three judgment scenarios, a total of 234 possible observations were produced (see Rossi and Nock, 1982). Of the 234 observations, one was eliminated because of missing data. The final number of observations was therefore 233.vi

Our respondents were mostly in their mid-thirties, white, and of U.S. nationality. Two-thirds were male, over half were married and they were well educated, with over two-thirds attending or having completed a graduate degree program. Most were experienced managers, with an average of just over 12 years’ business experience. Many had indirect experience of issues similar to those described in the scenarios and a majority came from organizations with a code of ethics.

This study examines the interaction of ethics and the law with respect to a decision to engage in illegal and unethical conduct. Our focus was on four sets of independent variables: formal sanctions, moral evaluations, outcome expectancies, and obedience to authority.

**Measures**

*Dependent variable.* The dependent variable COMMIT is the respondent’s estimate of his or her likelihood of doing as the hypothetical manager did in the scenario. The measure comprised an 11-point scale, ranging from 0 (“no chance at all”) to a mid-point of 5 (“50%
chance”) and an end-point of 10 (“100% chance”). The illegal and unethical nature of the act and
the likelihood of social desirability bias notwithstanding, the mean for COMMIT was 1.57 (s.d. =
2.18). Across scenarios, more than 42% of respondents indicated that there was at least a 10% chance that they would do what the manager did (60% of respondents for the price fixing scenario, 47% for illegal emissions, 42% for illicit cash payment).

Formal sanctions. The construct of formal sanctions comprised measures of the perceived chance and severity of criminal charges or civil actions against the individual or the firm, or of the individual or the firm being investigated by a regulatory agency as a result of the action described in the scenario. Questions about the likelihood of formal sanctions come shortly after the scenario (e.g., what is the chance you would be arrested for a criminal offence if you did what the manager did under these circumstances? This was coded as CRIMCH). Responses were on an 11-point scale, ranging from 0 (“no chance at all”) to a mid-point of 5 (“50% chance”) and an end-point of 10 (“100% chance”). After questions about the likelihood of other possible outcomes, respondents were asked to estimate how much of a problem various circumstances would create in their lives, including criminal charges, civil actions and regulatory investigation as a result of the manager’s action (e.g., being arrested for doing what the manager did, coded as CRIMSV). Responses were on an 11-point scale, ranging from 0 (“no problem at all”) to 3 (“small problem”), to 7 (“big problem”), to 10 (“a very big problem”). In the rational choice literature in criminology, it is presumed that certainty and severity will equally affect the decision making of a would-be offender who is an expected utility maximizer (Nagin, 1998: 21). Thus, we multiplied the estimated certainty of each sanction by its corresponding severity estimate to provide our perceived threat of formal sanctions variables: CRIMI, CRIMF, CIVILI, CIVILF, REGF, REGI (e.g., CRIMI, the threat of formal sanctions against the individual, comprised CRIMCH x CRIMSV). (See Table 2 for a list and description of construct items.)
Because corporate offenders are more likely to be discovered and processed by regulatory agencies or through civil means, we include these sources of formal sanction threat along with those associated with criminal justice processing.

Moral evaluations. Respondents’ moral evaluations of the manager’s action described in the scenario were measured using Reidenbach & Robin’s (1990) widely adopted Multidimensional Ethics Scale (MES; eight items coded as MORAL1-MORAL8). The three dimensions of the MES are “moral equity” (i.e., just/unjust, fair/unfair, morally right/not morally right, acceptable/not acceptable to my family), “relativistic” (i.e., culturally acceptable/unacceptable, traditionally acceptable/unacceptable), and “contractualism” (i.e., violates/does not violate an unspoken promise and violates/does not violate an unwritten contract). Respondents were asked to give their beliefs as an individual about the manager’s action, with each item measured on a 7-point scale.

Outcome Expectancies. The construct of outcome expectancies comprised eight variables reflecting positive or negative outcomes for the individual and his/her firm. Five were measures of the perceived chance and severity of dismissal from the company, jeopardizing future job prospects, and loss of respect and good opinion of business associates, of good friends and of family, as a result of the action described in the scenario. Two further variables were measures of whether the respondent would feel a sense of guilt and shame if others knew of the action and if the action tarnished the reputation of the firm, together with the severity of these possible outcomes. Finally, there is a variable that measures whether the respondents think the action would enhance their career prospects. It will be recalled that these measures are under the
assumption of not being officially caught. Specifically, respondents were given the following instruction: “For the next set of questions, assume that you did what the manager did under these exact circumstances. Assume also that although you or the company were not arrested, investigated, or sued, it did somehow become known that you had done this. Under these assumptions…” Responses to the five perceived chance questions were on an 11-point scale, ranging from 0 (“no chance at all”) to 10 (“100% chance”). Responses to the two sense of guilt or shame questions were yes/no.

Responses to the severity questions followed the instruction: “We would now like you to estimate how much of a problem the following circumstances would create in your life.” They were also on an 11-point scale, ranging from 0 (“no problem at all”) to 10 (“a very big problem”). Multiplying the estimated certainty of each outcome by its corresponding severity estimate provided our outcome expectancy variables: DISCO, JOBCO, BUSCO, FRDCO, FAMCO, SHAME, FRRCO (e.g., BUSCO, the threat of losing the respect and good opinion of business associates, comprised BUSINESS x BUSCOST). The CAREER variable is also on an 11-point scale. (See Table 2 for a description of construct items.)

Obedience to Authority. Obedience to authority was treated as a simple dichotomous variable within the scenario. Respondents were told either that the manager decides to engage in the act or that the manager is ordered to do so by a supervisor.

RESULTS

Our hypotheses look at how interrelated constructs serve to inhibit a manager from engaging in illegal and unethical conduct. To test our model based on this set of hypotheses, and to investigate the direct and indirect influences of constructs of concern simultaneously, we use a structural equation modeling (SEM) approach in our empirical analysis. The hypothesized model
is presented in Figure 1 and was estimated with LISREL8 (Jöreskog & Sörbom, 1993), with the covariance matrix as input.

To run the hypothesised structural equation model, we allowed certain within-construct items to be correlated and assumed no error in the measurement model for the two single-item measures. Model estimates and t-values are shown in Figure 1 (Cronbach’s alphas for constructs are reported in Table 2 and a correlation matrix is reported in Table 3). To check model validity, we found that each item has a statistically significant (p<0.01) loading on its posited underlying construct factor. Following Anderson and Gerbing (1988) and Bagozzi and Phillips (1982), we calculated confidence intervals of the interfactor correlations (phi) and found all of them to be significantly less than 1.0. The estimated chi-square statistic for the SEM model is 423.76 (p <0.01, with 210 degrees of freedom). Fit indices indicated a good fit: RMSEA = 0.07, CFI = 0.94, NFI = 0.90, NNFI = 0.93, IFI = 0.95, and GFI = 0.87.x These results show that a substantial amount of variance in our data set is accounted for by the model.

Our first hypothesis (H1), which predicted a direct effect of formal sanctions on corporate offending, was not supported. When indirect effects through perceived consequences and moral evaluations are controlled, formal sanctions fail to directly inhibit corporate offending and actually increase the probability of corporate offending.xi This result is notwithstanding relatively high perceptions of sanction certainty (mean perceived score on an 11-point scale for certainty of individual criminal sanctions = 3.88, civil sanctions = 3.56, and regulatory sanctions = 4.58; for certainty of firm sanctions it was 4.65, 5.05 and 5.59, respectively) and severity (mean perceived
score for severity of individual criminal sanctions = 9.48, civil sanctions = 9.35, and regulatory sanctions = N/A; for severity of firm sanctions it was 8.42, 8.26 and 7.85, respectively).

Overall, however, the total effects of formal sanctions (including indirect effects) do inhibit corporate offending. Parameters from our path analysis show that the total (standardised) effects that formal sanctions have on the offending decision is -0.26 (see Hayduk, 1987).xii This finding suggests that formal sanction threats alone do not inhibit corporate offending; they operate indirectly, with perceived consequences and moral evaluations playing important roles.

More specifically, we find that the positive impact of formal sanctions on outcome expectancies and moral evaluations are both significant; supporting hypotheses H2a and H3a (see Figure 1 for standardized path estimates and significance levels). Further, in H2b we predict a negative association between perceived outcome expectancies and the likelihood of illegal conduct. This hypothesis is supported and support was also found for the hypothesis that that the moral evaluations of the act directly (H3b) and indirectly, through outcome expectancies (H3c), inhibit corporate offending. Finally, the hypothesis that an agent is more likely to engage in corporate offending if s/he is ordered to do so by a supervisor (H4) is supported. Being told by supervisor to violate the law is also significantly associated with outcome expectancies (H4a).

Our results demonstrate that both moral evaluations and outcome expectancy play important mediation roles for formal sanctions to inhibit corporate offending. A model run without these two constructs (i.e., a nested model with only the paths of H1 and H4 in Figure 1) shows that formal sanctions inhibit corporate offending (coefficient for the path from formal sanctions to corporate offending = -0.25, t-value = -3.87). However, comparing the fit indices and CAIC (RMSEA=0.14, NNFI=0.69, CFI=0.74; CAIC=1658.66, versus 1003.96 of the full model illustrated by Figure 1) between the full and the nested model, it is clear that the full
model which takes into account the mediation effects of moral evaluations and outcome expectancy is a better fit to the data.

In addition to the pooled analysis discussed above, we ran a series of scenario-specific empirical structural equation models to see whether our hypotheses are substantiated in specific scenarios (price fixing, releasing air emissions that fail to meet EPA standards, and making a cash payment to a purchasing agent). Here we find that all paths have the same coefficient signs and levels of significance as in the pooled-data model, with two exceptions. First, only in the EPA scenarios is the formal sanction construct positively and significantly (at 0.05 level) related to corporate offending (the path is positive but not significant at 0.1 level for other offense types; which might suggest less respect for EPA/regulatory law). Second, obedience to authority is positively and weakly related to corporate offending (p< 0.1) in the price-fixing scenarios only. For the other two scenario types, the path is positive but insignificant.

DISCUSSION

Our study provides support for a model of decision making on unethical and illegal conduct in business that treats the decision as influenced by the interaction and direct effects of moral evaluations of the act, outcome expectancies and obedience to authority, with formal sanctions operating indirectly (see Figure 1). Our findings go beyond the admittedly limited extant literature in a number of key respects, not least in combining the two literatures of management and criminology and in our use of causal modeling.

Consistent with Trevino and Youngblood (1990) in the management literature, we confirmed the influence of outcome expectancies on ethical decision making and, to some extent, the role of locus of control, both directly and indirectly. The latter was treated as an individual difference variable in Trevino and Youngblood, using Rotter’s (1966) Social Reaction Inventory.
In our study, we used a single binary variable to specify obedience to authority and the individual differences on this dimension were not measured.

While Trevino and Youngblood found neither direct nor indirect effects for vicarious punishment, we found that formal sanctions had an indirect effect through outcome expectancies. This finding may well be attributable to our use of legal sanctions; the “punishment” in the Trevino and Youngblood study was disciplinary action by the firm. Further, our formal sanctions were closely linked to the focal decision as well as the outcome expectancies. Consistent with the recommendation of Flannery and May (2000), we included legality as a factor. Our focus on illegal and unethical conduct excludes many troubling behaviors that are, nonetheless, legal. However, it has the merit of addressing issues of great current societal concern.

We also found a direct and indirect effect (through outcome expectancies) for moral evaluations. Trevino and Youngblood (1990) found that cognitive moral development had a direct effect on ethical decision making (they did not predict indirect effects). Rather than focusing on individual differences, we used a measure of ethical evaluation as a more direct means of tapping in to the role of ethics. This reflects our different theoretical purpose. We are less interested in explaining corporate misconduct through a “bad apples” versus “bad barrels” hypothesis. Our interest is directed toward a better understanding of a decision to engage in unethical and illegal conduct that is influenced by situational factors (including but not limited to “bad barrels”) as well as individual characteristics. It may be a decision to knowingly “break the rules” or it may be that the individual believes no rule is being broken. As we show, a possible major constraint appears to be the individual’s assessment of the ethics of the act. This has important implications. As we discuss in more detail below, our theoretical perspective and the extent to which there is empirical support for our model, point to helping managers to better understand the ethics of their decisions rather than a focus on identifying bad apples.
Finally, while Trevino and Youngblood used path analysis—a method that is potentially more robust and appropriate than many of the descriptive studies reviewed in Ford and Richardson (1994) and Loe et al. (2000)—our use of the standard structural equation modeling technique allowed us to investigate the direct and indirect influences of the key constructs simultaneously and thereby structurally test the model.

Support for the role of moral evaluations is consistent with theoretical accounts of ethical decision making in the management literature (Ferrell & Gresham, 1985; Hunt & Vitell, 1986). Flannery and May (2000) did not find empirical support for personal moral obligation, despite using three items closely tied to environmental ethics. It is possible that the MES, a general and multidimensional measure used in this study is better able to capture the construct (though, equally, given the high mean and low standard deviation, the Flannery and May study may have suffered from a ceiling effect on its measure).

It is also important to note the influence of formal sanctions on ethical evaluations. This finding provides empirical support for interventions intended to better acquaint managers with the law, as we discuss further below. Again, this speaks to the merits of studies that look jointly at unethical and illegal conduct.

From a criminological perspective, our results are consistent with and build upon the integrated rational choice perspective developed and tested by Paternoster and Simpson (1993, 1996). Our findings suggest that criminal decision-making within the firm is both utilitarian and deontological (Reidenbach & Robin, 1990). To the extent that managers employ a subjective utility model, corporate offending decisions are more directly affected by controls found in social networks (within and outside of the workplace) and less by legal ones. However, as Williams and Hawkins (1989) found in their study of wife assault, legal threats can trigger social controls which, in turn, deter illegality. Some studies have failed to replicate this interaction (see, e.g.,
Nagin & Paternoster, 1991), but it is possible that we find this effect because the triggering mechanism rests with the social embeddedness of our sample. In other words, only those who perceive high social costs associated with offending will be susceptible to the formal sanction trigger. Because our respondents have attained high levels of social capital (education, work, respect of family), such an interaction is more likely than in studies with other samples (see also, Klepper & Nagin, 1989).

Similarly, we find that formal sanction threats affect offending decisions through moral evaluations of the act, consistent with claims about the moral and educative effects rendered by criminal law (Andenaes, 1974; Beccaria, 1963). However, few studies have examined empirically potential interactions between formal sanction threats, moral evaluations, and criminal behavior. In addition to considering these relationships, this study broadens the potential basis of moral socialization to include civil and administrative law. Work by Paternoster and Simpson (1996), using a similar sample of respondents, found that the offending proclivities of persons high on moral commitment were unaffected by criminal, civil, or regulatory sanction threats (certainty and severity). However, formal sanctions deterred persons who ranked below the median on moral commitment. Our results are in line with those of the earlier study, but we believe this research is a stronger test of these relationships. In the Paternoster and Simpson study, moral commitment was measured using single item indicator (i.e., persons were asked to rank four corporate criminal behaviors on an 11 item scale according to perceived immorality of the act). Moral evaluations are measured in this study using a multi-dimensional scale and we are thus better able to capture a fuller range of ethical evaluations.

Finally, the rational choice model builds on the idea that criminal choices are affected by context “…not only because different crimes may serve different purposes, but also because the situational context of decision-making and the information being handled will very greatly
among offenses” (Clarke & Felson, 1993: 6). The vignette structure of this study allowed us to explore whether the results from the full (pooled) model varied by crime type. Generally, the three types of corporate offending examined (EPA emissions violation, price-fixing, and bribery) showed similar effects and, when effects did vary, the differences were related to magnitude and not direction. Although more studies are clearly needed, these results (and Paternoster & Simpson, 1996) imply that corporate criminal decisions may stem from similar etiological processes and crime specific models may be unnecessary.

**Implications for Managers and Policymakers**

The degree of current societal concern about unethical and illegal conduct by business certainly matches, if not exceeds that of previous periods, such as the Wall Street abuses of the mid-Eighties (Stewart, 1991). Its adverse consequences are manifest in multiple ways, ranging from surveys reporting diminished trust in business to associated declines in equity markets. Responses include efforts by individual firms to step up compliance programs and improve corporate governance, and regulatory interventions. However, empirical support for specific types of interventions is limited. The findings from this study suggest that regulatory interventions in the form of increased formal sanctions may not, in isolation, be sufficient to produce much change in behavior; for example, the U.S. Sentencing Commission, acting consistent with the Sarbanes-Oxley legislation of 2002 (following the proposal of President Bush), has issued guidelines to federal judges doubling the recommended sentence from around five to ten years for certain corporate crime offences (Johnson, 2003).

This is not to imply that this and other directives in the Sarbanes-Oxley Act are without merit. Our study does suggest that formal sanctions can reduce the likelihood of misconduct indirectly, by acting on outcome expectancies and moral evaluations. Formal sanctions are more likely to be effective if associated with the prospect of loss of respect of business associates,
friends and family. Noteworthy, then, are the comments of a member of the Commission equating corporate crime and street crime: “Crimes in the suites will be treated either the same or more seriously than crimes in the streets” (Johnson, 2003). Further, formal sanctions are indicative of society’s views of the morality of certain conduct, influencing the individual’s moral evaluations of the act. The public reporting of a doubling of sentences in the guidelines—and in subsequent court cases—seems likely to support an increase in the perception of these crimes as morally wrong. Similarly, jail sentences for public figures such as Martha Stewart have an effect, but might also reduce efforts for more fundamental reforms (Economist, 2004).

Additional measures at the governmental, industry and firm level, might increase the effect of formal sanctions on outcome expectancies and moral evaluations. Managers are often ignorant of the law (Petty, 2000). Consistent with deterrence theory and the findings of this study, there appears to be a case for interventions that better familiarize managers with the law and convey the moral opprobrium attached to illegal conduct. In such a way, both moral evaluations and outcome expectancies may be influenced by greater awareness of formal sanctions. Note that our model and findings suggest that this is important in the absence of managers believing they or the firm will “get caught”.

More fundamentally, our study speaks to the importance of legitimating the use of ethics in business discourse and decision making. Where managers are ignorant of the law or where the law does not proscribe unethical conduct (Stone, 1975), encouraging recognition of the ethical dimensions of a business situation increases the possibility of constraints on unethical conduct.

Limitations and Directions for Further Research

There are some major limitations of our study. First, our sample is small and restricted—drawn from a mix of working managers and students with prior business experience. Moreover, the fact that respondents were a convenience sample and the relatively low survey response rate
affects the generalizability of our results. Additionally, critics often challenge the hypothetical scenario technique as contrived. The instrument does not actually measure offending behavior, but instead captures offending intentions. While these concerns are reasonable, the nature of our task—at least at this point—is exploratory. Because our results are consistent with theoretical expectations and results from other studies, we are confident that the processes we have observed are meaningful and worthy of further study.

There has been surprisingly little research on interventions that might reduce the likelihood of unethical and illegal conduct in organizations. Our study calls into question whether internal compliance systems can be adequate guarantors of ethical behavior and whether legal sanctions alone are likely to deter managers from offending. Ayres and Braithwaite (1992) have argued that corporate crime prevention and control should draw from a pyramid of enforcement—what they call the “benign big gun strategy.” The model assumes that most managers are willing to comply with the law and that an internal compliance system that reinforces ethical conduct and good citizenship will succeed most of the time. However, this model (built around persuasion and cooperation) will only be effective when more punitive responses to corporate crime also are available (the “big gun” in a hierarchy of increasingly punitive measures). While our results provide some support for this model, more research is needed to learn about the conditions under which offenses are likely to occur (i.e., organizational “hot spots”), when punitive sanctions are apt to backfire perhaps leading to defiance (Sherman, 1993), and the inter-relationships among individual traits, situational characteristics, and offending propensities (Makkai & Braithwaite, 1994). Until we have a better sense of the etiology of criminal and unethical corporate decision-making, crime prevention and control policies and practices appear likely to be driven by political expediency instead of scientific investigation.
TABLE 1
Characteristics of Survey Respondents (N=78)

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<th>Characteristic</th>
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<th>No</th>
<th>Missing</th>
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<tbody>
<tr>
<td>Age Mean age</td>
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</tr>
<tr>
<td>Mean age = 35.4 years</td>
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</tr>
<tr>
<td>s.d. = 9.5</td>
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<tr>
<td>Years of business experience Mean experience</td>
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<td>69</td>
<td>1</td>
</tr>
<tr>
<td>Mean experience = 12.2 years</td>
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<td>s.d. = 9.2</td>
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<tr>
<td>Missing = 1</td>
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<tr>
<td>Familiar with US Sentencing Guidelines for Organizations</td>
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<td>Current employer has random ethics audits</td>
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<td>Current employer has anonymous hotline to report unethical/illegal conduct</td>
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<td>59</td>
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<tr>
<td>Current employer has top management that treats ethics seriously</td>
<td>30</td>
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31
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<tr>
<th>Construct</th>
<th>Items</th>
<th>Item Descriptions</th>
<th>Cronbach’s alpha</th>
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<tr>
<td><strong>Formal sanctions a</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>CRIMF</td>
<td></td>
<td>Having criminal charges brought against the firm</td>
<td></td>
</tr>
<tr>
<td>CRIMI</td>
<td></td>
<td>Being arrested for doing what the manager did</td>
<td></td>
</tr>
<tr>
<td>CIVILF</td>
<td></td>
<td>Having the firm sued for doing what the manager did</td>
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<tr>
<td>CIVILI</td>
<td></td>
<td>Personally being sued for doing what the manager did</td>
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<tr>
<td>REGF</td>
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<td>Having the firm investigated by a regulatory agency for doing what the manager did</td>
<td>0.93</td>
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<td></td>
<td>Personally being investigated by a regulatory agency for doing what the manager did</td>
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<td><strong>Outcome expectancies b</strong></td>
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<tr>
<td>DISCO</td>
<td></td>
<td>Being dismissed from the job</td>
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</tr>
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<td>BUSCO</td>
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<td>Losing the respect and good opinion of business associate</td>
<td></td>
</tr>
<tr>
<td>JOBCO</td>
<td></td>
<td>Jeopardizing future job prospects</td>
<td></td>
</tr>
<tr>
<td>FAMCO</td>
<td></td>
<td>Losing the respect and good opinion of relatives</td>
<td></td>
</tr>
<tr>
<td>FRDCO</td>
<td></td>
<td>Losing the respect and good opinion of close friends</td>
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</tr>
<tr>
<td>FRRCO</td>
<td></td>
<td>Tarnishing the reputation of the firm</td>
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<td>SHAME</td>
<td></td>
<td>Feeling a sense of personal shame</td>
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<tr>
<td>CAREER</td>
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<td>Whether the act would enhance career</td>
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<td><strong>Moral evaluations</strong></td>
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<tr>
<td>M1</td>
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<td>M3</td>
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<td>What the manager did is just</td>
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</tr>
<tr>
<td>M4</td>
<td></td>
<td>What the manager did does not violate an unwritten contract</td>
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</tr>
<tr>
<td>M5</td>
<td></td>
<td>What the manager did is traditionally acceptable</td>
<td></td>
</tr>
<tr>
<td>M6</td>
<td></td>
<td>What the manager did is morally right</td>
<td></td>
</tr>
<tr>
<td>M7</td>
<td></td>
<td>What the manager did does not violate an unspoken promise</td>
<td></td>
</tr>
<tr>
<td>M8</td>
<td></td>
<td>What the manager did is acceptable to my family</td>
<td></td>
</tr>
<tr>
<td><strong>Obedience to Authority</strong></td>
<td>OBEY</td>
<td>Action is ordered by a supervisor</td>
<td></td>
</tr>
<tr>
<td><strong>Decision</strong></td>
<td>COMMIT</td>
<td>The chance to act as the manager did</td>
<td></td>
</tr>
</tbody>
</table>

---

*a* Except for REGI which is measured by “chance” only (we did not ask respondents about “severity” for this item), the other 5 items in this construct are measured by “chance”*”severity”.

*b* All items in this construct are measured by the multiple of chance and severity.
### TABLE 3

#### Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>CAREER</th>
<th>DISCO</th>
<th>BUSCO</th>
<th>JOBCO</th>
<th>SHAME</th>
<th>FAMCO</th>
<th>FRDCO</th>
<th>FRRCO</th>
<th>ORDER</th>
<th>MORAL1</th>
<th>MORAL2</th>
<th>MORAL3</th>
<th>MORAL4</th>
<th>MORAL5</th>
<th>MORAL6</th>
<th>MORAL7</th>
<th>MORAL8</th>
<th>CRIMF</th>
<th>CRIMI</th>
<th>CIVILI</th>
<th>CIVILF</th>
<th>REGF</th>
<th>REGI</th>
<th>COMMIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>3.03</td>
<td>51.41</td>
<td>54.52</td>
<td>61.96</td>
<td>8.05</td>
<td>59.21</td>
<td>51.71</td>
<td>0.45</td>
<td>1.00</td>
<td>0.85</td>
<td>0.95</td>
<td>0.80</td>
<td>0.95</td>
<td>0.75</td>
<td>0.95</td>
<td>0.95</td>
<td>0.95</td>
<td>0.95</td>
<td>0.95</td>
<td>0.95</td>
<td>0.95</td>
<td>0.95</td>
<td>0.95</td>
<td>0.95</td>
</tr>
<tr>
<td>Std.</td>
<td>2.75</td>
<td>28.50</td>
<td>27.88</td>
<td>27.51</td>
<td>3.14</td>
<td>32.41</td>
<td>29.50</td>
<td>26.76</td>
<td>0.50</td>
<td>1.79</td>
<td>1.43</td>
<td>1.32</td>
<td>1.96</td>
<td>1.79</td>
<td>1.08</td>
<td>1.99</td>
<td>1.26</td>
<td>27.70</td>
<td>26.79</td>
<td>26.46</td>
<td>27.31</td>
<td>27.71</td>
<td>2.78</td>
<td>2.18</td>
</tr>
</tbody>
</table>

CAREER DISCO BUSCO JOBCO SHAME FAMCO FRDCO FRRCO ORDER MORAL MORAL MORAL MORAL MORAL CRIMF CRIMI CIVILI CIVILF REGF REGI COMMIT

|       | 1  | 2  | 3  | 4  | 5  | 6  | 7  | 8  | 9  | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 |
|-------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| CAREER| 1.00|
| DISCO | -0.22|
| BUSCO | -0.16|
| JOBCO | -0.17|
| SHAME | -0.17|
| FAMCO | 0.02|
| FRDCO | -0.06|
| FRRCO | -0.23|
| ORDER | 0.13|
| MORAL1| -0.21|
| MORAL2| -0.26|
| MORAL3| -0.21|
| MORAL4| 0.23|
| MORAL5| -0.31|
| MORAL6| -0.25|
| MORAL7| 0.27|
| MORAL8| -0.24|
| CRIMF | -0.12|
| CRIMI | -0.06|
| CIVILI| -0.02|
| CIVILF| -0.09|
| REGF | -0.11|
| REGI | -0.02|
| COMMIT| 0.51|


FIGURE 1
Model of Corporate Offending

Moral Evaluations

Formal Sanctions

Outcome Expectancy

Corporate Offending

H1 (0.16/ 2.56)

H2a (0.30/ 5.14)*

H3c (0.53/ 6.75)***

H3b (-0.55/ -5.65)***

H4a (-0.13/ -2.04)*

H2b (-0.28/-3.53)***

H4 (0.15/ 2.03)*

H3a (0.49/ 6.64)***

*Identifying hypotheses and results of path analysis (parameter estimate/T-value).

* p < .05  ** p < .01  *** p < .001
APPENDIX A

Sample Scenarios

**Price Fixing.** Lee, a manager at Steelcorp, considers whether to order an employee to meet with competitors to discuss product pricing for the next year. Such an act is common in the firm. Steelcorp is a diversified company currently experiencing declining sales and revenues in an industry that is economically deteriorating. If successful, the act may result in increased co-worker admiration for Lee. Lee also believes that the act will save the company a small amount of money. The firm has a hotline in which acts can be anonymously reported to management and an employee was severely reprimanded after being discovered by the firm engaging in a similar act. Lee decides to order an employee to meet with competitors to discuss product pricing for the next year.

**Environmental Pollution.** Lee, a manager at Steelcorp, is ordered by a supervisor to release into the air emissions that fail to meet EPA standards. Steelcorp is currently experiencing declining sales and revenues in an industry that is losing ground to foreign competitors. If successful, the act may result in a promotion and salary bonus for Lee. Lee also believes that the act will save the company a large amount of money. The firm has a code of ethics and an employee was recently fired for engaging in a similar act. Lee decides to release into the air emissions that fail to meet EPA standards.

**Bribery.** Lee, a manager at Steelcorp, considers whether to order an employee to offer a payoff to a purchasing agent who has requested a cash payment in exchange for future purchasing agreements. Such an act is common in the industry. Lee thinks that the law governing this act is unreasonably applied to companies like Steelcorp. Steelcorp is currently experiencing growing sales and revenues in an industry that is economically healthy. If successful, the act may result in a positive impression of Lee by top management. Lee also believes that the act will modestly increase firm revenues. The firm has internally implemented audits and inspections at random intervals but no action was taken against an employee who was discovered by the firm engaging in a similar act. Lee decides to order an employee to offer the payoff to the customer.
REFERENCES


predict that formal sanctions will be mediated through moral evaluations of the act. Immorality seem more reasonably determined for the individual by formal sanction threats rather than vice versa, we behavior; they also affect one another commitments are distinct from the quest for pleasure (instrumental considerations) while noting "while both affect behavior, they also affect one another. And, these effects flow both ways." However, because perceptions of act immorality seem more reasonably determined for the individual by formal sanction threats rather than vice versa, we predict that formal sanctions will be mediated through moral evaluations of the act.

A set of 10 dimensions thought to influence the decision to commit the act were included in each scenario, consistent with hypotheses in a broad program of research of which this study is a part. The specific dimensions that were used to construct the scenarios included pecuniary benefits for the firm, nonpecuniary benefits for the firm, pressures on the firm (internal and external), internal compliance system (operation and structure), managerial power, personal benefit for the manager, firm diversification, and corporate culture. Within each of these dimensions are specific levels (e.g., ethics code, ethics training, mandatory audits, hotline) which are then randomly assigned for each vignette that is created (the four compliance program components, for example, would each have a 25% chance of being assigned to a given vignette). Further information about the survey instrument and the generation of the scenarios is available from the second author.

This is a conservative estimate. While we provided the SVP with 100 surveys, as few as 50 may have actually reached potential respondents.

One potential problem with factorial surveys is that one respondent evaluates multiple scenarios. This can, but does not necessarily, produce serial correlation among observations. One way to limit serial correlation is to vary the order in which respondents read the scenarios. In this survey, all respondents received the offending scenarios in the following order: price fixing, EPA violation, and bribery. However, the fact that offending propensity is unaffected by offense type in this study suggests that there are few order effects in these data.

This convention is a standard measure of the traditional subjective utility model. As Grasmick and Bursik (1990:847, fn4) suggest, the product of certainty and severity is the theoretically relevant variable in tests of rational choice theory and criminal offending (see also, Paternoster & Simpson, 1996). Nagin (1998), however, suggests that the proportionality assumption (that certainty and severity make equally proportionate contributions to subjective utility) may be violated for some types of crime. For instance, his research on tax evasion shows that there are fixed costs associated with conviction or even apprehension that are not proportional to potential punishment (Klepper & Nagin, 1989).

REGI is measured by “chance” only because a “severity” measure was not considered suitable for this item.

Most outcome expectancy variables are potential outcomes for the individual because our focus is on individual-level decisions. Also, note that there is some overlap between our measures of outcome expectancies and moral evaluations—especially the dimension of relativism. Specifically, the relativism dimension asks respondents to judge the act as acceptable/unacceptable to family while our outcome expectancy measure includes a question about how certain and costly it would be to the respondent should family members discover his or her participation in the act. We agree that the measures overlap in their family focus; however, the measures are capturing different things. The first is clearly a moral evaluation (i.e., is the behavior acceptable to family) while the second assesses costs and consequences associated with an illegal/unethical act. While the two items are correlated, as one would expect (.45), they are not so highly correlated to be of concern. A similar claim could be made regarding the correlations between our outcome expectancy measure of shame and moral evaluations (correlations between .31 and .52). Clearly, when respondents view illegal acts as immoral, unjust, and unfair, they may perceive high costs (both personally and for the firm) associated with their participation in the act, i.e., morals evaluations may trigger cost assessments, but we believe that the concepts themselves are distinct and should be modeled separately.
Other than the significant chi-square statistic, which is often expected in similar modelling contexts (Bagozzi & Yi, 1988), all the other fit indices are within an acceptable range (e.g., meet the criteria of CFI > 0.92, IFI > 0.92, and GFI > 0.86 as suggested by Bentler & Bonett, 1980).

This seemingly counterintuitive finding is likely caused by some factor not controlled for in this study. For instance, our study assumes that sanctions should deter offending, but for some respondents just the opposite may occur. Perhaps the direct and positive association between formal sanctions and offending propensity is underpinned by the thrill of getting away with an illegal act (i.e., the offence is attractive because of the risk of getting caught). In this case, legal sanctions attract rather than inhibit crime. Of course, this explanation and our unexpected result beg further empirical exploration.

Direct effect = 0.16; through perceived consequences: 0.30*(-0.28) = -0.08; through moral evaluations: 0.49*(-0.55) = -0.27; through perceived consequences and moral evaluations 0.49*0.53*(-0.28) = -0.07.

Our failure to uncover more dramatic effects may be due to statistical power problems associated with small samples (see, e.g., Weisburd & Britt, 2003).

The use of student samples for research purposes is especially problematic when the behavior of interest is rare in the sample population (e.g., violent offending). However, our respondents either currently work or, as MBA students, have significant prior work experience. Moreover, there is a sizeable body of research that explores the relationship between offending intentions and behavior (see Simpson, Paternoster, & Piquero, 1998).