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PAPERS

Governance and Ethics in Temporary Organizations: The Mediating Role of Corporate Governance

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ABSTRACT

The impact of multilevel level governance on the frequency of ethical issues in temporary organizations (TOs) is investigated. A structural equation model, based on a global survey, showed that behavior control, as a governance mechanism at the temporary organization (TO) level, reduces the frequency of ethical issues. This relationship is partly mediated through corporate governance, which controls ethical issues by following good governance principles. Using institutional and agency theory, we identify a substitution effect, where micro level (TO) governance substitutes for 'holes' in the macro level (corporate) governance. Situational contingencies for the synchronization of governance efforts across macro and micro levels are discussed.

KEYWORDS: governance; ethics; temporary organization; agency theory; institutional theory

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INTRODUCTION

Ethics—the justification of actions and practices in specific situations—deals with the reasoning process and is a philosophical reflection on the moral life and the principles embedded in that life (Buchholz & Rosenthal, 1996). Ethical issues (or dilemmas) are situations of ethical decision making in which a choice has to be made between two equally desirable or undesirable alternatives (Walker & Lloyd-Walker, 2014). Related research often emphasizes the individual person and his or her situational context during the decision-making process (Clegg, Rhodes, & Kornberger, 2006) in an attempt to balance the economic and moral qualities of a decision (Heugens, 2006).

Research in temporary organizations (TOs), such as projects, has shown that the nature of the ethical issues as well as the ways in which managers respond to those issues differ by the type of temporary organization (TO) governance structure. Predominantly shareholder and process-oriented governance structures are mainly faced with transparency issues (such as non-disclosure of the real performance of TOs), whereas predominantly stakeholder and outcome-oriented governance structures are mainly faced with optimization issues (such as ethically correct distribution of risks and benefits in the TO) (Müller et al., 2013, 2014). In this study, we focus on the frequency of ethical issues and its relationship with trust and control, two mutually supplementary mechanisms for governance at the TO level (Das & Teng, 1998; Gulati & Nickerson, 2008; Sydow & Windeler, 2003), and the role of corporate governance in this relationship. This allows for a deeper understanding of the role of governance mechanisms for ethical issues at both the TO and corporate governance levels.

Governance provides the framework within which management tasks are executed, and the closest governance institution for a TO is typically its steering group (Müller, 2016). Different authors hold different views about the independence of governance of TOs. While corporate perspectives assume that corporate governance regulates all activities in a corporation, including the governance of TOs (Too & Weaver, 2013), a TO perspective suggests that TOs are to some extent autonomous entities that serve as agents for change and resource utilization (Turner & Müller, 2003) and may not be fully controlled by corporate governance. Thus, the interactions of governance at the corporate and TO levels are unknown in terms of their joint consequences, for example, in terms of ethical issues in TOs. We address these differences of governance at the corporate and TO levels and their combined impact on the frequency of ethical issues in TOs. Our Unit of Analysis is the relationship between the governance of TOs and the frequency of ethical issues in these TOs. The governance of the TO serves as an independent variable and the frequency of ethical issues as a dependent variable, mediated by corporate governance practices. Mediation is chosen because of corporate governance's authority to intervene in the governance of the TO.

Our point of departure is the work by Schaubroeck et al. (2012) (which is based on the model by Schein, 1985, 2010), who showed the multilevel characteristics of ethical leadership, spanning from the macro to micro levels in organizations. Schaubroeck et al. conceptualized the impact of ethical leadership by upper management in two ways:

1. Directly, by influencing the managers at the adjacent layer within the organizational hierarchy; and
2. Indirectly, by influencing the overall organizational culture, which pervades more than just the next layer in the hierarchy.

In line with Hargrave (2009), we would expect the ethical stance in the TO to be influenced directly by its closest governance institution (e.g., the steering committee for the TO), and indirectly via the organizational culture.

We adopt this multilevel approach to governance of TOs and their ethical issues by conceptualizing corporate governance as the macro level and TO governance as the micro level in the sense of Foss (2007), Foss, Husted, and Michailova (2010), and Coleman (1990).

We take an agency theory (Jensen & Meckling, 1976) perspective toward governance and show how agency theoretical approaches at the macro and micro levels are synchronized through the elements of institutional theory (Henisz, Levitt, & Scott, 2012). Our theoretical contribution lies in the extension of agency and institutional theory by outlining their synchronization capabilities across organizational levels. We advance the existing multilevel theories, which prescribe organizational macro and micro levels as mutually constitutive with respect to organizational ethics (Gordon, Clegg, & Kornberger, 2009).

The context for this study is TOs, which are perceived as agencies for change and resource utilization, embedded in a wider functional organization (Turner & Müller, 2003). We believe all organizations are permanent on some time scales, and temporary on others, and indeed some TOs outlast the sponsoring organization; so, whether an organization is perceived as temporary or permanent is a social construct (Turner, Huemann, Anbari, & Bredillet, 2010). Some organizations perceive themselves as permanent and create other organizations, which they perceive as temporary, to undertake an action on their behalf. The perceptions influence how people on both sides of the divide behave. Their temporality and the integrative nature of their tasks make TO governance different from that of line organizations (Bresnen, Goussevskaia, & Swan, 2004). This study includes a variety of TOs, such as industry projects, military, aid, and relief missions. For ease of reading, we use the term "TOs" synonymously with these programs, projects, and missions for the remainder of the article.

Corporate governance is understood as the relationship between an organization's internal and external stakeholders with the aim of steering the organization in preferred directions and toward preferred levels of accomplishment (Müller, 2009). Stoker (1998, p. 155) concludes that governance is "ultimately concerned with creating the conditions for ordered rule and collective action." To achieve that, governance approaches differ widely across organizations, thus they are organization specific and need to be designed.

We undertook this work with the goal of addressing the following research questions:

RQ1: How does the TO's governance impact the frequency of ethical issues?

RQ2: How is this relationship influenced by corporate governance?

The topic is of interest for a variety of reasons. Knowledge of how the TO governance influences ethical issues; how that relationship is influenced by corporate governance; and how ethical issues influence future expectations, will allow managers to define the nature and scope of measures at the TO and corporate governance levels to manage the ethical issues, and the impact they have. A deeper understanding of the role of trust in TO governance allows for various adjustments at the corporate and/or TO level to establish sufficient levels of trust in order to reduce transaction costs (Dyer & Chu, 2003). For academics it is of interest to better understand the interface between the permanent organization's (corporate) governance and that of the TO in order to further develop theories about this interface.

The article continues by outlining the theoretical framework and reviewing the most relevant literature, which we categorize into theoretical perspectives of agency theory and institutional theory, and literature on ethical issues in TOs, TO governance mechanisms of trust and control, as well as corporate governance practices. This is followed by the study's methodology and the related data collection and analysis. We finish with a discussion of the model developed herein and the conclusions that can be drawn from it.

Theoretical Framework

Agency and Institutional Theory

Agency theory, originally developed to describe the relationship between owners (shareholders) and managers of a firm (Jensen & Meckling, 1976), is frequently used as a governance theory to address the relationship between one or more principle(s) and one or more agent(s) (Davis, Schoorman, & Donaldson, 1997). It does that by outlining, among others, the need to divide ownership and control of tasks by appointing principles as governors and managers as agents, who potentially act as self-centered, utility-maximizing individuals whose interaction is characterized by information imbalance. Examples include the project owner as governor (or principal) being in conflict with the project manager (agent) about possible short-term gains of the agent, resulting from an information imbalance between the two parties, because the agent is better informed about the project status than the principal and can use this knowledge to his or her own advantage. This conflict is often mitigated through increased control structures or contracts that align the objectives of both parties and reduce deviations from plans and this adds undesired transaction costs to projects (Turner & Müller, 2004). While agency theory is popular for its explanation of some dimensions of organizational complexities, it is also limited by its strict economic perspective. Davis et al. (1997, p. 20) suggest: "Additional theory is needed to explain relationships based on other non-economic assumptions."

We do this in the present study through institutional theory, which addresses the processes by which social structures—including both normative and behavioral systems—are established, become stable and undergo changes over time (Scott, 2012). It explains similarities and differences in social settings; relations between structures and behaviors; symbolism; or tensions between freedom and order, at the societal, institutional, organizational, and interpersonal relations levels (Scott, 2004, 2012). An institutional perspective suits well to governance studies as shown by Henisz, Levitt, and Scott (2012). By extending and applying economic, legal, sociological, and psychological governance perspectives on relational contracts, they integrated the governance and institutional theory perspectives into a conceptual framework for project governance in large infrastructure projects. Institutional theory provides an appropriate perspective toward governance. Aligned with Henisz et al. (2012), we adopt the three pillars of institutional theory—regulative, normative, and cultural–cognitive—to explore the link between governance and institutional perspectives. Regulative elements, such as formal regulations, laws, and property rights (Scott, 2004) are externally imposed to the organization, and brought to bear through relational contracts, public–private partnerships, adjustment to environmental laws, and so forth. Normative elements include informal norms, values, standards, and roles, which, in the case of TOs, can be standards or methodologies issued by professional associations or developed in-house. Cultural–cognitive elements are the shared beliefs, symbols, identities, and logics of action (Misangyi, Weaver, & Elms, 2008; Orr & Scott, 2008; Scott, 2012), associated with sensemaking in organizations (Weick, Sutcliffe, & Obstfeld, 2005).

Ethical Issues in TOs

Ethics is a relatively new subject in TO research and has yet to be as broadly covered as in general management. The majority of contributions are in the realm of normative ethics (addressing what to do in a given situation), including the works of Helgadóttir (2008), Jonasson and Ingason (2013), and Bredillet (2014), who address deontological, teleological, and Aristotelian approaches to decision making; Godbold (2007), who emphasizes the importance of ethical awareness in the project manager's role; and Müller et al. (2014), as well as Walker and Lloyd-Walker (2014) who investigate the types of ethical issues to expect in TOs. Very little is found about behavioral ethics (i.e., why do people behave unethically in the workplace?), such as the work by Kvalnes (2014) who investigated the reason for dishonesty in projects. The general management literature on ethics points out the situational contingency of ethical decisions (Kelley & Elm, 2003), and extends into the related arbitration between ethical and economical decision making (Barraquier, 2011) as well as the consequences for organizations (Cialdini, Petrova, & Goldstein, 2004), leading to the notion of ethics-as-practice as a framework for research into business ethics (Clegg, Kornberger, & Rhodes, 2007).

The earlier work by Müller et al. (2013, 2014) is most relevant for the present study. They identified the different types of ethical issues in different TO governance structures. Three main categories of ethical issues were identified through a qualitative study and supported by 97% of the respondents to a worldwide survey as being experienced in their last project:

1. *Transparency issues:* the reluctance of the manager of the TO to report actual performance.
2. *Relationship issues:* inappropriate interpersonal or informal relationships between managers of TOs and other stakeholders thereof, such as clients, team members, or suppliers.
3. *Optimization issues:* the question of optimizing the TO to meet the objectives of the sponsor or client, the manager of the TO, or other stakeholders, and the associated distribution of risks and benefits across these stakeholders.

This study investigates the impact of corporate and TO governance on the frequency of ethical issues in TOs; therefore, we will use the combination of these three types of issues as the dependent variable in the study.

TO Governance

TOs can be defined in many ways, such as processes, methods, or tasks. The role of governance should match the ways in which projects or other tasks of the TO are perceived. For that we adopt an organizational perspective toward TOs (in the sense of Turner & Müller, 2003), who identified them as entities of the production function, which are used as agencies for change and for resource utilization. Turner and Müller equated the role of the project manager to that of the CEO of a TO.

Within the research streams on governance in the realm of TOs, two major streams can be observed:

1. *Governance design:* studying governance approaches at different levels in the organization, for individual TOs (i.e., TO, governance) and for groups of TOs, such as programs, project portfolios, networks, and project-based organizations (i.e., governance of TOs) (see, for example, Biesenthal & Wilden, 2014; Müller, Turner, Andersen, Shao, & Kvalnes, 2014; Too & Weaver, 2013) and understanding how these influence each other, and are influenced by corporate governance (i.e., the governance of the parent, permanent organization).
2. *Governance consequences:* exploring the results of implementing different governance structures at the macro and micro levels, such as the impact of governance structures at the level of TOs on the types of ethical issues encountered (see for instance Walker & Lloyd-Walker, 2014; Müller et al., 2013, 2014), and how they influence expectations of future interactions and outcomes.

We complement these studies by investigating the role of the traditional governance mechanisms of control and trust at the TO level and their relationship with the frequency of ethical issues in TOs.

Control and trust are seen as major mechanisms in the governance of permanent organizations (Dyer & Chu, 2003) as well as TO governance (Wang & Chen, 2006), and thus constitute the context of the TO (Bakker, 2010). Although control and trust are exercised in parallel, they have a non-linear relationship, which limits their mutual substitution. Clases, Bachmann, and Wehner (2003) showed that the balance between both must fit the governance situation. Too much control reduces trust on the side of employees because it signals a lack of trust from the governance structure and an expectation of opportunistic behavior (Kadefors, 2004); through this, too much control impacts negatively on, for example, project results (Turner & Müller, 2004).

Control in the Governance of TOs

Control is the measurable, rational, element in a performance evaluation (Eisenhardt, 1985) and supplements the subjective element of trust in governance. The classic works by Ouchi (1980), Eisenhardt (1985), and others identify three approaches organizations use to control personnel: (1) outcome control, which pervades an organization and provides for legitimate evidence of performance; (2) behavior control, which diminishes through the hierarchy and is appropriate when managers understand the nature and the means–ends relationship of the tasks; and (3) clan control, which is socially exercised through belongingness to certain groups, such as professional organizations, or employees of the same profession in one organization (Brown & Eisenhardt, 1997; Ouchi & Maguire, 1975; Ouchi, 1980; Ouchi & Johnson, 1978). In the realm of TOs, Turner and Keegan (1999) argue for idiosyncratic control structures, contingent on the nature of the TO, its client, input, process, and output. A categorization of these structures into four distinct governance paradigms for TOs was done by Müller (2009) in overlaying the shareholder–stakeholder orientation of the governors with their preference for behavior or outcome control. Studies based on these paradigms showed differences by paradigms in the dominant types of ethical issues (Müller et al., 2013, 2014), but did not investigate the particular role of control in the determination of ethical issues. Governance literature on TOs, such as professional standards and guidelines, emphasize the control mechanism over the trust mechanism in governance.

The control mechanism reflects agency theory (Jensen & Meckling, 1976) with its economic view toward governance and its underlying assumption of opportunistic and self-interested agents who need to be controlled.

Control as a governance mechanism varies by micro and macro levels. While micro level approaches typically define the timing and nature of control, such as milestone or review meetings at the end of project phases, the macro level approaches define how control is exercised. The latter relates to the outcome or behavior control as outlined by Ouchi (1980), which became a popular concept to research in organizations in general (see, for instance, Brown & Eisenhardt, 1997; Das & Teng, 1998; Eisenhardt, 1985). Project management–related studies often used Müller's (2009) approach, with behavior and outcome control at either end of a continuum (Aubry, Müller, & Glückler, 2012; Müller & Lecoeuvre, 2014; Müller et al., 2014). Agency theory implies that if the principal (project owner, steering committee) is using outcome control as its main controlling mechanism, it is left to the agent (project manager) to decide how to carry out the work, which means that the decisions are made by the agent, including those of ethical nature. This might include decisions related to transparency issues (e.g., what, or how much, the agent should tell the principal about the emerging problems and performance issues that may delay the project), relationship issues (e.g., should the project favor existing suppliers over new ones), or optimization issues (e.g., deliver at lowest cost or with best value for the customer). The stricter the outcome control is the more the agent will focus on the final deliverable and neglect ethical issues arising from the process of developing the project's outcome. We hypothesize therefore:

> *Hypothesis 1: There is a positive correlation between the frequency of ethical issues in a TO and the level of outcome control exercised by its parent organization*

Trust in the Governance of TOs

Trust is a psychological state that impacts attitudinal, perceptual, behavioral, and performance outcomes (Clases et al., 2003). From an economic perspective, trust has the capacity to reduce transaction costs in organizations due to reduced spending on control (Das & Teng, 1998; Dyer & Chu, 2003); however, trust also increases the risk for opportunism (Nooteboom, 1996), especially in projects or other one-time endeavors where the consequences of a breach of trust may not materialize before its end. For trust, we adapt the definition of Schoorman, Mayer, and Davis, (2007, p. 712) as the 'willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party.' Studies on trust predominantly distinguish between system trust and person trust. The former describes the trust in system processes, management systems, or governance structures, whereas the latter describes the trust in individuals or groups (McKnight, Cummings, & Chervany, 1998; Sydow, 2000). Related studies in TOs showed a reflective relationship between the governance structure (or more precisely, the creators of those structures) and the managers of TOs. When the governance structure trusts the managers to be able to handle ethical issues, managers trust the governance structure in return and make use of it to solve their ethical issues rather than circumventing it (Müller et al., 2014).

The importance of trust for TOs was emphasized by Hartman (2002) who identified trust as an antecedent for project success, a finding complemented by Pinto, Slevin, and English (2009) who showed that the perception of trust differs by roles in TOs and impacts the satisfaction with relationships in projects. Trust is reflected in stewardship theory (Schoorman, Mayer, & Davis, 2007) with its psychological perspective and an underlying assumption that agents (such as the managers of TOs) serve higher order needs and aim for the good of the organization they work for. For managers of TOs that may be the result of their project or the permanent organization that sponsors the project. Among the many different perspectives on trust, we adapt the cognitive-based view, which is based on actor reliability and dependence among actors (McAllister, 1995). Thus, we reduce the scope to the trustor–trustee dyad (governor to manager of the TO) and exclude affective-based perspectives. The studies by Müller et al. (2013, 2014) explored the level of trust between different actors, including the governance structure, managers, team and other stakeholders of TOs, and showed that three types of trust are especially relevant for the present study:

- *System trust:* The trust that managers of TOs have in the governance system in terms of its usefulness in managing ethical issues. Luhmann (2000) refers to this as confidence, whereas other authors, including McKnight et al. (1998) and Sydow (2000) refer to it as system trust. We adapt the latter terminology
- *Internal trust:* The trust that the team in the TO has in its manager, and vice versa.
- *External trust:* The trust that stakeholders external to the TO, including the sponsor, have in the manager of the TO and his or her team

These types of trust are not independent from each other, as research showed that higher levels of system trust are associated with (1) higher levels of trust of the TO governance structure in the TO managers, and (2) increased internal trust between teams in their managers in TOs (Müller et al., 2014).

Hosmer (1995) showed that trusting business partners to arrive at morally correct decisions and actions based on ethical behavior implies that trustful relationships are less prone to the emergence of ethical issues. Based on this, we hypothesize an interaction of trust as a governance mechanism from the most immediate governance structure (TO governance) with the frequency of ethical issues in TOs:

> *Hypothesis 2: There is a negative correlation between the frequency of ethical issues in TOs and the trust exercised by its parent organization*

Corporate Governance

Corporate governance is a broad concept with a wide spectrum of definitions, from narrow views that focus only on shareholder return (such as shareholder perspectives in agency theory, Jensen & Meckling, 1976), to broader views that balance a number of internal and external requirements for many stakeholders (such as stakeholder perspectives in stewardship theory, Davis, Schoorman, & Donaldson 1997).

Definitions of corporate governance can broadly be categorized in:

- *Control systems* (Cadbury, 1992) or collection of control mechanisms (Larcker & Tayan, 2011) for directing and controlling organizations, or holding the balance between economic and social goals and between individual and communal goals (Cadbury, 1992).
- *Processes* that allow corporations to become responsive to the rights and wishes of their stakeholders (Demb & Neubauer, 1992), including processes and procedures to direct and control organizations (OECD, 2001).
- *Relationships* among internal and external participants of the firm (Monks & Minow, 1995), the rights and responsibilities among these participants, and their relationships with other stakeholders (OECD, 2001).

Across these definitions governance refers to the structures for setting the objectives of an organization, providing the means to achieve these objectives, and controlling progress (OECD, 2004). Executing governance requires processes and related control mechanisms, as well as relationships between stakeholders, to perform these processes, thus all three dimensions of the definitions listed above. Governance pervades the organization; it emerges at every node of a management hierarchy or network—from the board of directors to the department managers, and managers of TOs.

Good corporate governance should be based on the four principles of transparency, accountability, responsibility, and fairness (Aras & Crowther, 2010), building on the underlying assumptions of separation of ownership and control (Fama & Jensen, 1983) and separation of management and governance. In the latter principle, managers manage the business and governance ensures it is well run and runs in the right direction (Tricker, 2012). To accomplish this, writers such as Nordberg (2011), Larcker and Tayan (2011), and Monks and Minow (1995) agree on a set of practices for good corporate governance and these are:

- Management makes decisions to maximize strategic objectives
- Incentives for senior management to work toward the company's strategic objectives
- Sanctions for misdemeanors
- A mission statement that places a priority on good corporate governance
- A public policy statement that emphasizes strict ethical behavior
- Policies for:
    - diversity in recruiting and assignments to teams
    - sustainability and corporate responsibility
- Easy access to information:
    - about the business model and how the business operates
    - about company results
    - required by employees to achieve their objectives
- Procedures for:
    - risk management
    - monitoring people's ethical behavior

These practices will be used in the empirical investigation described as follows to assess the corporate-level governance practices.

Related publications often refer to organizational governance instead of corporate governance in order to include non-corporate organizations. For ease of reading, we use the terms 'corporate governance' and 'organizational governance' interchangeably in this article.

The impact of corporate governance on ethical behaviors is a popular topic for researchers. For example, Trevino and Brown (2004, p. 71) showed the importance of context, such as governance, in guiding adults for ethical decision making by pointing out that less than 20% of adults decide autonomous and principle based, and more than 80% of adults 'are looking outside themselves for guidance in ethical dilemma situations.' Cialdini, Petrova, and Goldstein (2004) looked at related consequences, such as dishonesty stemming from mismatch of values and increased surveillance in governance. Paine (1994) points toward the need for and also complexity of implementing integrity-based approaches for ethical management via improved self-governance of individuals. Victor and Cullen (1988) identified different climate types in organizations, which vary, among others, by the positions and work groups of employees or managers. The above findings show an influence of both TO level and corporate level governance on ethical issues in TOs. Ethical issues, and the related decisions on how to handle them, are shown as being strongly situation dependent. Thus we argue that TO governance, due to its close proximity with the TO's tasks and situation, has the strongest impact on the frequency of ethical issues in TOs. However, this influence is subject to regulation by higher levels of authority, such as corporate governance, which can formally (and informally) override practices at the lower TO level. Therefore, we hypothesize:

Hypothesis 3: Corporate governance mediates the relationship between TO governance and the frequency of ethical issues.

Hereby, TO governance is understood as being executed through the control and trust mechanisms described above.

Methodology

In this deductive study, we applied a post-positivist epistemological stance, using a worldwide web-based questionnaire for cross-sectional data collection. We applied mediation analysis, which is a key method for process analysis (Kenny, 2009).

Sampling

Managers and management professionals in TOs were targeted using snowball sampling via professional institutions, including the Project Management Institute (PMI) and the International Project Management Association (IPMA). The number of usable responses totaled 179; of these, 141 (79%) were managers of TOs (such as project managers), 22 (12%) were team members of TOs, and 15 (8%) were related management consultants. A *t*-test found no differences in responses between these groups. The geographic distribution of responses is shown in Table 1, where countries with less than four responses are categorized under "other." All respondents were asked to answer the survey with respect to their last project and the

Countries	Responses	Percentage
Other	64	36%
United States	22	12%
Canada	21	12%
Norway	19	11%
Panama	8	5%
Sweden	9	5%
Germany	8	5%
Netherlands	8	5%
United Kingdom	7	4%
India	5	3%
China	4	2%
Pakistan	4	2%
Sum	179	100%

Table 1: Geographic distribution of responses.

related permanent organization that parented this project, which allowed for using one source for the collection of data at both levels.

The study's minimum sample size was calculated as suggested by Hair, Hult, Ringle, and Sarstedt (2014) by being ten times the largest number of indicators used to measure a single construct. Corporate governance was measured on 12 indicators; thus, the minimum sample size was 120, which was met with 179 observations in the sample.

Measurement Scales

All constructs were assessed using five-point Likert scales and semantic differential questions.

The construct for *Frequency of Ethical Issues* (taken from Müller et al., 2014) was assessed by asking how often each of the three ethical issue types (transparency, relationship, and optimization) occurred in the last project, mission, or other endeavor of the TO. The scale ranged from never (1) to always (5), with the midpoint being regularly (3).

TO governance was assessed along the mechanism for trust (divided into system trust, internal people trust, and external people trust) and control. System trust was assessed using Müller et al.'s (2014) two questions to assess the extent to which managers of TOs are (1) authorized to decide on ethical issues themselves and (2) to implement decisions on ethical issues themselves. Higher values indicated higher trust by the system. Internal and external trust was assessed using the scales developed by Chen, Chen, and Xin (2004). For both internal trust (the TO's manager trusts/is trusted by the team) and external trust (external stakeholders trust manager/team of the TO) we asked for level of trust in the TO, confidence in integrity, confidence in right decision making, consistency of actions with words, and guidance by correct principles. Higher values indicated higher levels of trust.

For the assessment of the control mechanism, we adopted the measurement construct from Müller and Lecoeuvre (2014). The questions addressed organizations' preference for following the rules versus creating expected outcomes; preference for more formal, tight or more informal, loose control; adherence to job descriptions; the need for individuals to comply with their job descriptions or decide on their own appropriate on-the-job behavior; the role of support institutions (such as PMOs) being process or results oriented; and compliance expectations by the organization, such as prioritizing methodology compliance over an individual's own experience. Higher scores indicated a preference for outcome control and lower scores for behavior control.

Corporate governance was assessed using the 12 dimensions listed in the literature review above, with low fulfillment of the good corporate governance principles on the low end of the scale and high fulfillment on the high end.

Validity and Reliability

Cronbach Alpha values above 0.6 indicated sufficient reliability for an exploratory study like this (Hair et al., 2014). Validity was achieved through use of published and tested measurement constructs for ethical issues, TO governance control, people, and system trust. Questions for corporate governance were newly developed, but based on existing literature as well as their validity tested during the questionnaire pilot test. No issues were raised during the pilot test and only minor grammatical changes were made. Answers to the pilot test were not included in the final sample.

Following suggestions by Hair et al. (2014), we chose Partial Least Squares Structural Equation Modeling (PLS-SEM) over covariance-based SEM because the nature of the study is exploratory and aims for the highest predictability of a single dependent latent construct, that is, the endogenous construct of Ethical Issues. The underlying structural model defines TO governance with its trust and control constructs as exogenous latent constructs; the model defines corporate governance as an endogenous mediator construct.

For the measurement model, we designed all measurement items as reflective items, assuming that they are caused by their respective latent construct (Hair et al., 2014).

For the quantitative analysis, we started with unrotated factor analysis to test for internal consistency of the construct measures and a Haman test for assessing Common Methods Bias (Podsakoff & Organ, 1986). All but one item loaded high (>0.5) on their respective construct. This indicates no issues with internal consistency and common methods bias; then we developed the PLS-SEM model using SmartPLS. Missing values were less than 5%, thus acceptable for the chosen technique (Hair et al., 2014).

Analysis

For the analysis we followed Hair et al. (2014) and report below in line with their suggestions.

As suggested by Hair et al., we excluded indicator items with loadings below 0.7, except in cases in which the item was close to the threshold and important for the reliability of the construct. The final set of indicators is shown in Figure 1 and described in the Appendix (see Table 4 in Appendix). SmartPLS does not require normal distribution of the data, but we checked skewness and kurtosis nonetheless and found all constructs to be within the range of ± 1 standard deviation, thus normally distributed.

Hypothesis Testing

Table 2 shows the details and results of the hypothesis tests. The initial analysis of the path model called for an assessment of the main effect of trust and control of the TO's governance on ethical issues. The path from control to ethical issues is positively correlated and significant at a *t*-value of 2.084 (at 5% significance level). This supports Hypothesis 1: Higher levels of outcome

Hypothesis	Path	Beta	Sample Mean (M)	Standard Deviation	*t* Statistics	Hypothesis Supported / Not Supported
Hypothesis 1: There is a positive correlation between the frequency of ethical issues in a temporary organization and the level of outcome control exercised by its parent organization	Temporary organization governance control → Ethical issues	0.194	−0.221	0.093	2.084	Supported
Hypothesis 2: There is a negative correlation between the frequency of ethical issues in temporary organizations and the trust exercised by its parent organization	Temporary organization governance system trust → Ethical issues	0.125	0.127	0.083	1.498	Not Supported
	Temporary organization governance internal trust → Ethical issues	−0.071	0.089	0.105	0.679	
	Temporary organization governance external trust → Ethical issues	−0.103	0.104	0.137	0.747	
Hypothesis 3: Corporate governance mediates the relationship between temporary organization governance and the frequency of ethical issues	Temporary organization governance control → Ethical issues	0.125	0.133	0.083	1.440	Supported
	Temporary organization governance control → Corporate governance	−0.300	−0.316	0.069	4.371	
	Corporate governance → Ethical issues	−0.207	−0.219	0.096	2.160	
→ = hypothesized correlation						

Table 2: Path significance and hypotheses test.

control correlate with higher frequency of ethical issues.

None of the three trust constructs had a significant relationship with the construct for ethical issues (*t*-values under 1.65, thus insignificant at the 0.1 level). Hence, Hypothesis 2 is rejected: Trust as a governance mechanism does not correlate with the frequency of ethical issues.

A significant main effect is a prerequisite for mediation tests. Therefore, only the control construct in TO governance was retained for further analysis of the mediation effect by corporate governance.

Figure 1 shows the final structural model, with the exogenous constructs for control in TO governance on the left, the mediating construct corporate governance on the top, and frequency of ethical issues on the right. R^2 values are shown in the center of each construct (except for the independent construct, which has no R^2 value in PLS-SEM), together with path coefficients and outer loadings for the measurement items. We used bootstrapping with 5,000 cases and replacing of missing values by means, at a sample size of 179 and followed the suggestions of Hair et al. (2014) in the assessment of the model.

Table 3 shows the details of the latent constructs. Convergent validity can be assumed with Average Variance Extracted (AVE) values exceeding 0.5. Discriminant validity is indicated by each indicator loading highest on its respective construct, and through satisfaction of the Fornell Larcker criterion (i.e., indicator loadings on other constructs are smaller than the square root of the AVE). Reliability is indicated through Cronbach Alpha values higher than 0.6 and a Composite Reliability level above the 0.7 threshold. R^2 values indicate small, but significant levels of predictability of the endogenous variables. Multicollinearity issues are not to be expected, as the Variance Inflation Factor (VIF) measure of 1.099 is clearly below the threshold of 5. Effect size measures (f^2) show relatively small, but significant contributions of the exogenous variable to the endogenous variables' R^2 values. The relatively high values for corporate governance mirror the importance of the indirect effect via corporate governance for the dependent construct, thus the inherent power of corporate governance over TO governance. Predictive relevance is measured by Q^2. Values over zero indicate that the exogenous variables have predictive relevance for the endogenous constructs. Taken together, the model indicates a 7.4% predictability of the frequency of ethical issues in TOs, a small but important effect size (Cohen, 1988; Hair et al., 2014). All exogenous and endogenous variables contribute to that.

The extent to which corporate governance mediates the relationship between control in TO governance and ethical issues is calculated through VAF (variance accounted for), which is the indirect effect divided by the total effect of the model. A VAF of 0.332 in this model indicates a partial mediation by corporate governance. The overall model is significant at 5%, with a t-value of 1.96.

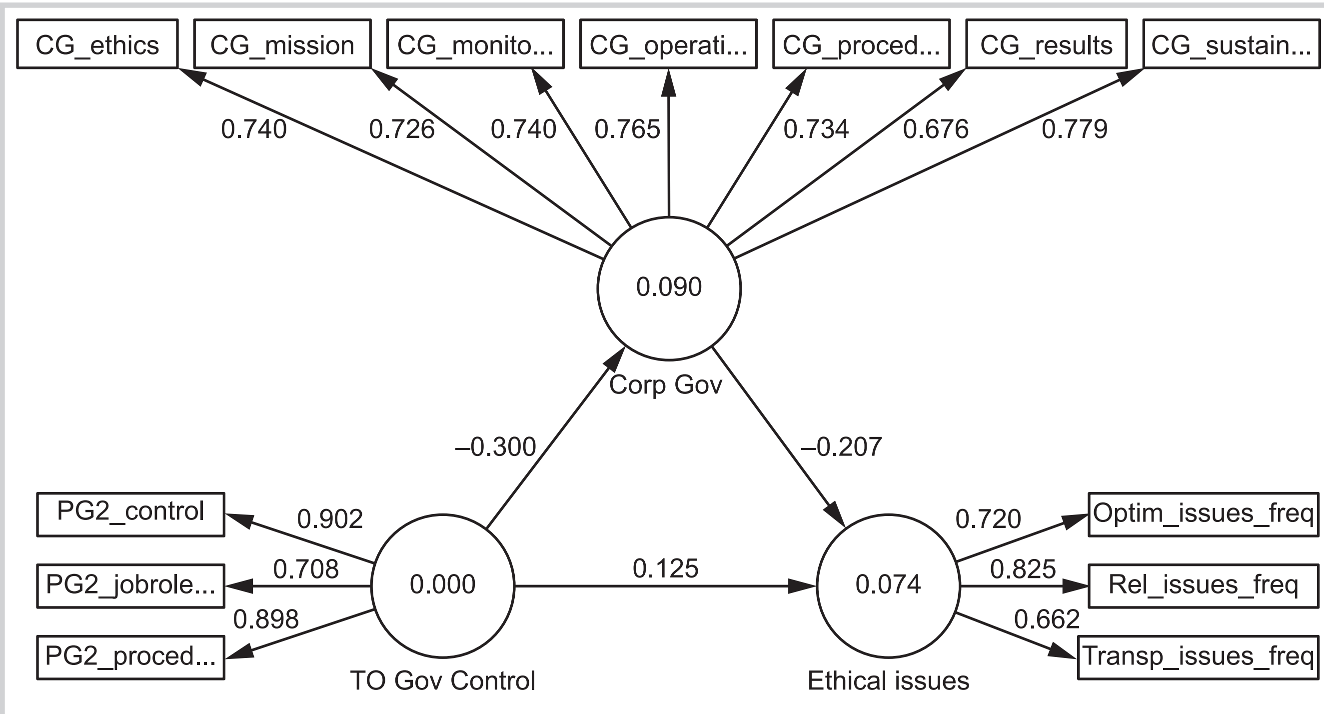

Figure 1: Final structural model.

Even though the direct effect between TO governance and ethical issues becomes statistically insignificant in the presence of corporate governance, its correlation coefficient remains greater than zero, which indicates a continuation of the effect, albeit partly mediated by corporate governance (Kenny, 2009).

Inspection of the total effects table in SmartPLS shows the importance of the individual indicators for the model. The strongest impact on control in TO governance has PG2_procedures (0.5142), followed by PG2_control (0.4926) (details in the Appendix). Hence stricter emphasis on getting personnel to follow existing procedures and use of control and information systems reduce the number of ethical issues in TOs. The most impactful indicators from corporate governance are CG_procedures (0.2507), followed by CG_ethics (0.2319) and CG_operation (0.2139). This indicates the need for clearly stated and widely communicated statements about risk management procedures, expected ethical behavior, and the model of how the business operates, in order to reduce ethical issues.

Discussion

This study advances the understanding of the interaction between corporate level and TO level governance for the emergence of ethical issues in TOs such as projects. In the following section, we discuss the findings and their implications for governance theory.

Ethical Issues and Governance

The frequency of ethical issues in TOs is influenced by TO governance and corporate governance. When excluded from the corporate governance context, the control mechanism in TO governance is significantly related with, and predicts, 4% of the ethical issues. In the presence of corporate governance, a third of this control mechanisms correlation with ethical issues is absorbed by corporate governance and, jointly, the two governance levels explain 7% of the variance in ethical issues in TOs. In the presence of corporate governance, however, the correlation between TO governance and ethical issues is reduced. As shown by the beta coefficients, the impact of corporate governance is stronger than that of TO governance and indicates the power of corporate governance in relation to TO governance. Higher

	AVE	R^2	Cronbach Alpha	Composite Reliability	f^2	Q^2
Ethical issues	0.5456	0.0739	0.6179	0.7813	—	0.0345
Corporate governance	0.5444	0.0897	0.8620	0.8930	0.0389	0.0434
PG control	0.7069	—	0.8143	0.8773	0.0054	0.0408

Table 3: Latent variables.

levels of good corporate governance practices lead to lower frequencies of ethical issues, which is supported by Minkes, Small, and Chatterjee (1999), who demand explicit and understood standards of behavior to instill desired attitudes in organizations. The findings are also in support of Schaubroeck et al.'s (2012) theoretical model of pervading ethical leadership, which points out the multi-level nature of ethics and ethical leadership in organizations, empirically supported through this study's results. The TO manager's ethical responses are influenced by corporate governance and TO governance. In the absence of corporate governance, the TO manager's ethical responses are influenced by TO governance. In the presence of both levels of governance, the TO manager's loyalty is to both the TO and the permanent organization (Schoorman et al., 2007).

Implications for ethical issues in TOs are not only due to the presence of the assessed seven corporate governance practices, but also due to the proximity of the TO and corporate governance per se. TOs acting widely independent of their parent organization, such as virtual or geographically distant projects, can be assumed to be more strongly influenced by their local TO governance, whereas TOs in close relationships with their parent organization, such as in in-house projects, can be assumed to have a relatively stronger impact from corporate governance with respect to their ethical issues. This implies the need for further research in the role of space and virtual organizing in the relationship between governance and ethics in TOs.

Trust as a Governance Mechanism in TOs

The importance of trust as a governance mechanism in TOs to influence the frequency of ethical issues was not supported through this study. This is supportive of the notion of trust as a transaction cost reducing and performance increasing mechanism, irrespective of ethics in execution (Carson, Madhok, Varman, & John, 2003; Dyer & Chu, 2003). Moreover, the cognitive-based assessment in this study does not rule out possible effects through the affect-based trust in TOs, which is more subjective and driven by emotions (Chua, Ingram, & Morris, 2008). Trust requires time (Jeffries & Reed, 2000) and a stable business relationship to develop (Lane & Bachmann, 1996). These are not necessarily characteristics of TOs, which are often set up for a limited time and with changing personnel to accomplish a predefined goal. This is indicative of a rather distinct, as opposed to, a general role of trust as a governance mechanism in TOs. This is a finding supported by Sydow (2006, p. 378), who recommends acknowledging the conceptual differences and subtle interplays of different forms of trust, which 'sharply contrasts with the rather straightforward 'trust management' that still dominates 'practice guides' on trust-building and overlooks these distinctions and interactions.' This suggests more research on the particular types of trust and their roles in TO governance.

Control as a Governance Mechanism in TOs

The control mechanism in TO governance impacts the frequency of ethical issues. Using outcome control, which leaves the decision on ethical issues to the manager of the TO, while simultaneously shifting the focus from following processes and policies to the accomplishment of defined outcomes, increases the frequency of ethical issues. This is prevented through Turner's (2009) model for the governance of TOs, which emphasizes the need for clearly defined roles and processes. This way of reducing the frequency of ethical issues resembles nonmarket, unilateral/hierarchical governance, in which one party (TO governance) is a unilaterally assigned authority that develops rules, gives instructions, and imposes decisions on the other (Heide, 1994). This ability to govern through authority is not limited to intra-firm settings, as inter-firm contractual provisions can produce a similar hierarchical effect (Heide, 1994). In TOs, control assumes an important role in governance in the context of the temporariness of the undertaking with its frequent forming and dismantling of teams, changing personnel, and limited timeframes. Within this context characterized by discontinuities, the governance elements of authority structure, formal procedures, job descriptions, and control reduce uncertainties in the handling of ethical issues. This is complemented by corporate level information about how the business is to be conducted, and the ethical behavior that is expected.

Corporate Governance

Corporate governance practices impact the frequency of ethical issues in TOs. Seven out of twelve practices associated with good corporate governance were found to be influential on ethical issues and these are:

- *Mission:* a statement that places a priority on good corporate governance
- *Policies for:*
    - strict ethical behavior
    - sustainability and corporate responsibility
- *Procedures for:*
    - risk management
    - monitoring people's ethical behavior
- *Information access to:*
    - the business model and information on how the business operates
    - company results

Clearer missions, policies, and procedures keep the frequency of ethical issues in TOs at lower levels. Here the procedures and information access set the expectations about business practices by providing processes and tools in addition to the required information sources. Mission and policies provide the mental frameworks for decision making by clarifying what the organization stands for and aspires to, including the ethics of their business conduct.

Overall, these dimensions signal the need for a strict and control-oriented governance at the corporate level in order to avoid ethical issues in TOs. The importance for corporations to monitor ethical behavior was suggested earlier, among others, by Lindsay, Lindsay, and Irvine (1996) in a survey of Canada's top 1,000 companies who concluded that company practices for ethical monitoring are important but could be improved. Further support of the findings is by Martin and Cullen (2006), who emphasized the importance of establishing and maintaining ethical climates in organizations, as well as Schaubroeck et al.'s (2012) theory on the distribution of ethical practices from the top and through the entire organization.

Aligning Agency Theory and Institutional Theory

Of interest is the relationship between corporate level and TO level governance from the theoretical perspective. Corporate governance necessarily addresses overarching topics, such as general direction and mental frameworks for decision making. TO governance addresses the particularities of the governed unit. The TO level's structures of procedures, job descriptions, and control systems are of significance in the absence of corporate-level structures, and are reduced with the emergence of corporate governance. This indicates a substitution effect, where lower level (TO) governance substitutes for 'holes' in the macro level (corporate) governance. Even though the model's dimensions of micro level governance are more focused and task related than the broader higher level corporate governance dimensions, there are commonalities, which are indicative of essential, level-independent governance structures. These commonalities resemble the three pillars of institutional theory and their overlap with agency theory as a governance perspective and these are:

1. *Regulative:* In governance, these are the controlling and monitoring systems, which at the macro level address monitoring scope and dimensions and at the micro level provide the systems for its execution.
2. *Normative:* In governance, these are the behavior influencing measures. Both governance levels set expectations for behavior through provision of procedures and job descriptions and enforce their use through regulative measures.
3. *Cultural–cognitive:* In governance, this provides for sensemaking by individuals. In combination, the two governance levels provide for sensemaking of the TO in the wider organization. For that, the macro level governance provides a framework through the combination of mission, policies, and information access, whereas the micro level governance adds the task-specific governance details, which together allow for an understanding and making sense of the role of the TO in its corporate context.

This suggests that cross-level measures of regulative, normative, and cultural–cognitive nature need careful adjustment for coherence and credibility of the governance structure. This has implications for theory development and managerial conduct, which are addressed in the Conclusions section.

Conclusions

The research questions RQ1 and RQ2 can now be answered. RQ1 questioned the relationship between TO governance and the frequency of ethical issues: TO governance uses control and not trust as a governance mechanism to steer the frequency of ethical issues in TOs. Along the continuum from behavior to outcome control, more outcome control, which compromises on the related control system and the compliance with formal procedures and job descriptions are associated with more ethical issues in the forms of transparency and relational and optimization issues.

RQ2 questioned the influence of corporate governance on this relationship: The effect of TO governance on ethical issues is stronger in the absence of corporate governance. Corporate governance absorbs approximately one third of the effect that TO governance has on ethical issues and interacts with TO governance to jointly control for about 7% of the ethical issues in TOs. Thus, corporate governance partially mediates the TO governance–ethical issues relationship. Seven 'good practices' in corporate governance underlie this effect: a mission statement that prioritizes good governance; policies for strict ethical behavior, and sustainability and corporate responsibility; procedures for risk management and monitoring of ethical behavior; as well as access to information on company results and the organization's business model and its operations. This emphasizes the importance of balancing mental frameworks in terms of missions and policies, with specific guidance through procedures and data.

Overall, the study showed that governance that aims for avoidance of ethical issues lends itself to agency theory perspectives. It emphasizes normative measures and strict control, embedded in a framework of related missions and policies. Relative standalone TOs, which are not or only marginally embedded in a corporation, are predominantly governed by their local TO governance structure, whereas TOs embedded in a corporate structure are predominantly governed through corporate governance. This adds the dimension of organizational autonomy to the notion of TOs as standalone organizational entities (Turner & Müller, 2003).

Contributions to Theory

We described corporate governance as a combination of processes, control systems, and relationships between actors (see, for example, Cadbury, 1992; OECD, 2004), which set the context and boundaries for the role of management, such as the TO management (e.g., Too & Weaver, 2013). We also started with the notion of trust and control as key mechanisms in the execution of governance (Dyer & Chu, 2003) and related this to ethics in organizations (Schaubroeck et al., 2012), measured as the frequency of ethical issues in TOs. The results have the following theoretical implications.

Macro and micro level governance interact and share commonalities. The commonalities are in their provision for monitoring and controlling; influencing the behavior of actors; and the provision for sensemaking in the organization, thus reflecting the three dimensions of institutional theory, which are regulative, normative, and cultural–cognitive, respectively. These three functions are performed by governance independent of its level and are necessarily expressed at varying levels of detail. However, they substitute each other when it comes to ethical business conduct in that micro level functions dominate in the absence of macro level functions, but diminish with the emergence of macro level functions. Thus, corporate governance is powerful, but does not override TO governance entirely in their influence on ethical issues.

The findings of the study resemble agency theory, especially the underlying assumption of control as a way of managing the occurrence of ethical issues, and the dominance of control over trust as a significant governance mechanism with respect to ethical issues. It extends agency theory by showing that control (the regulative element) is supplemented by measures to influence behavior (normative elements) and sensemaking for individuals (cultural cognitive element) and that these measures must be synchronized across macro and micro levels. The macro level (governance of the permanent organization) sets the overall framework, for example, in defining the expectations in terms of ethical behavior, and the micro level control structures (TO governance) must synchronize with the macro level expectations in order to fulfill the aims of macro level governance. Thus, the structures and processes in the TO are directly influenced by those in the permanent organization. The two levels must also allow for sensemaking for the individual, as well as avoid creating opportunities for opportunism. Expectations of future interactions and outcomes are thus based on previous experience of ethical issues, influence managing, and working in the TO. Micro level structures increase in importance in the absence of macro level governance. Hence, the degree of macro level governance involvement determines the equilibrium between the micro and macro level influence on TOs in, for example, balancing the number of ethical issues. Future developments in governance theory for TOs need to take this interdependence of macro and micro levels into account.

Managerial Implications

The data described above suggest a need to synchronize governance approaches across levels in order to avoid creating opportunities for misconduct or opportunism. Approaches, such as those for monitoring and controlling (regulative), should not contradict each other across levels, just as the expected behavior of people (normative), and the information that allows making sense of the TO in the wider organization (cultural–cognitive). This questions the use of standardized governance approaches, which are not designed to be adjusted to different corporate governance approaches. It is therefore recommended to carefully adjust standard governance methods, such as those offered through professional or consulting organizations, to the particular corporate governance approaches along the three identified dimensions:

1. Regulative: such as synchronizing either behavior or outcome control across governance levels, or the scope of monitoring, to avoid, for example, too much monitoring in a TO relative to the rest of the organization, which would signal mistrust and expected misdemeanor of TO members;
2. Normative: to harmonize behavior across the organization, similar work should follow similar procedures; and
3. Cultural–cognitive aspects, such as the ways in which business is operated, and the conduct of business both inside and outside the organization should be made transparent and synchronized across organizational levels.

Final Comments

The contributions to theory described above may act as a starting point for the development of an emerging theory on the relationship between corporate and TO governance, an under-researched area. The study showed how corporate governance mediates TO governance's impact, thus defined the limitations of existing concepts, such as those by the Association of Project Management (APM, 2004), which proposed a quasi-standalone governance of TOs, limited in scope by corporate governance.

Future research could contribute to the diversity of theoretical perspectives, such as using institutional theory (Scott, 2014) to investigate the impacts of regulative, normative, and cultural–cognitive elements of governance on the ethical issues and trust in TOs. More process-oriented studies, as suggested by Langley, Smallman, Tsoukas, and Van de Ven (2013) would provide a complementary view and deepen the insight into the phenomenon.

The strengths of the study are in the congruency of existing theoretical frameworks with empirical results, which adds to credibility. There are also weaknesses, such as the exploratory nature of the study, which needs further investigations to stabilize the results and identify their limitations; and the details of the nature of the interface between agency theory and institutional theory, which is here described as a need to synchronize the measures of the three institutional theory dimensions across the governance levels in an organization.

Corporate governance and TO governance interact in their impact on ethical issues. The study has shown the nature of the interaction and the conditions for its impact.

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APPENDIX

Construct	Indicator
Ethical issues	Transparency issues
	Relationship issues
	Optimization issues
Temporary Organization Governance Control	PG2_control: The level of tight formal control of most operations by means of sophisticated control and information systems versus loose informal control and the norm of cooperation
	PG2_jobrole: Emphasis on getting personnel to adhere closely to formal job descriptions versus letting the requirements of the situation and the individual's personality define proper on-the-job behavior
	PG2_proced: Emphasis on getting personnel to follow laid down procedures versus getting things done even if it means disregarding formal procedures
Corporate Governance	CG_ethics: Existence and clearness of public policy statement that emphasizes strict ethical behavior
	CG_mission: Existence and clearness of a mission statement that places a priority on good corporate governance
	CG_monitor: Existence and clearness of procedures for monitoring people's ethical behavior
	CG_operation: Existence and clearness of a model for how the business operates
	CG_proced: Existence and clearness of risk management procedures
	CG_results: Ease of access to company results
	CG_sustain: Existence and clearness of policies for sustainability and corporate responsibility

Table 4: Retained indicators.

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