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Master Thesis

- Code of ethics and moral awareness -

A study about the relationship between code of ethics and moral awareness and the moderating impact of locus of control

Hand-in date:

01.09.2016

Campus:

BI Oslo

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Examination code and name:

GRA 19003 Master Thesis

Programme:

M.Sc. in Leadership and Organisational Psychology

This thesis is a part of the MSc programme at BI Norwegian Business School. The school takes no responsibility for the methods used, results found and conclusions drawn.

Acknowledgement

Writing the thesis has been a journey which can be compared with a rollercoaster. We have, during the data collection, a better insight and understanding of the frustration it can create on getting companies and participants to participate in research. In our ethics course, we discussed a case where the researcher had fabricated data. Even though it is unethical and wrong, we have a greater understanding of why this can be tempting, especially when you have a lot to lose.

This thesis is the concluding part of the Master of Science in Leadership and Organisational Psychology at BI Norwegian Business School. We have had a steep learning curve during the last two years and it is with pure pleasure that we are writing our last words of our master thesis. It has given us inspiration to what we want to work on further in the future, and hope it will inspire others to do the same: increase awareness of the importance of business ethics.

We would like to express our gratitude for the help we have received throughout the process of writing our master thesis. First of all, we would like to thank our supervisor and philosopher Øyvind Kvalnes, Associate Professor in Business Ethics, for his encouragement, patience and for always being there when needed. He has been a dedicated guide who has given us valuable guidance throughout the whole process. Further, we would like to thank Professor Anders Dysvik for helping us with our method and pushing us to start early. Third, we would like to thank all the participants involved in this study for providing us with valuable data. Without the participants, this research could not have been conducted. Lastly, we thank our family, friends and classmates for great support while writing this thesis.

Oslo, September 2016

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Abstract

The purpose of this study is to examine the effectiveness of code of ethics on moral sensitivity of individuals and evaluate whether individual differences such as locus of control have any effect on this relationship. Although code of ethics has been argued to have significant effect on moral awareness and acts as a moral reminder (Pflugrath, Martinov-Bennie & Chen, 2007; Ariely, 2012), there is an ongoing debate regarding its effectiveness in promoting ethical behaviours in organisations as the research evidence is found to be mixed (Loe, Ferrell & Mansfield, 2000; O'Fallon & Butterfield, 2005; Craft, 2013). Additionally, to our knowledge, there is no empirical research on the moderating effect of locus of control in ethical decision making literature.

The study was conducted by sending a survey questionnaire consisted of measures of moral awareness and locus of control to 500 individuals who are students at BI Norwegian Business School and University of Oslo as well as people from our social and professional network.

Results of this study show that code of ethics is not significantly related to moral awareness. On the other hand, locus of control was found to have significant moderating effect on the level of moral awareness one has when a reminder of code of ethics was presented. Individuals with external locus of control tend to be less ethically sensitive than those who have internal locus of control. This finding has confirmed what previous studies have found regarding the relationship between locus of control and moral awareness (Ho, 2010), and has raised a question concerning the effectiveness of code of ethics itself in navigating ethical behaviours.

The academic and practical contribution of this study is to reflect on the effectiveness of code of ethics in organisations. Such reflection is relevant for the mainstream research on code of ethics and is necessary for organisation's rethinking of their use of code of ethics as a fulfilment of external expectations.

Keywords: moral awareness, code of ethics, locus of control, ethical decision making

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1. Introduction

Unethical behaviour on the part of organisations can cause severe damage, especially to their reputation and in worst case, it can cause the organisation's downfall (Barsky, 2008). A recent example of reputation damage is the Volkswagen emission scandal in 2015, where they not only damaged their own reputation, but also the reputation of the entire automotive industry (Davidson & MacLennan, 2015). Another industry scandal is the recent Panama Papers where the majority of the major banks were involved in helping companies and individuals to avoid tax (Foroohar, Vella, Chan & Iyengar, 2016). Further it is interesting that many of the individuals involved in the Panama Papers were world leaders and politicians with important positions.

To avoid pitfalls of unethical behaviours, many organisations have made codes of ethics as guidelines to influence and promote ethical behaviour among their employees. Through publicizing the existence of code of ethics, organisations signal their values and that they stand by high ethical standards. Unfortunately, this strategy of using ethical codes may not be associated with the intention to promote the ethical behaviour internally (Long & Driscoll, 2008). Even though it is a widespread opinion that adopting code of ethics by organisations is beneficial, the empirical literature on the effect of ethical codes on behaviour has mixed results (McKinney, Emerson & Neubert, 2010; Craft, 2013). In this study, we will re-examine the question of the effectiveness of code of ethics itself through checking whether it has any influence on people's moral sensitivity.

Further, we want to examine whether or not personality traits, such as locus of control, moderate the effect of code of ethics. Our first contribution is to the ethical decision making literature as we combine organisational and individual factors to see if this may be the reason of the inconsistency of previous findings. Secondly, our study has a practical implication for organisations regarding the necessity and effectiveness of Code of ethics. Our reflection could be relevant for the mainstream research on code of ethics and our findings could be necessary for organisations to rethink their use of code of ethics as a fulfilment of external expectations.

2. Theory development

2.1. Moral awareness

Moral awareness is the first stage in Rest's (1986) conceptual model of ethical decision making which consists of four stages, namely moral awareness, moral judgment, moral intent and moral behaviour. According to this model, in order for a moral behaviour to occur, an individual has to first (1) recognize a moral issue and then (2) process to make a moral judgment, deciding which course of action is morally correct; (3) establish moral intent, prioritizing moral concerns and finally (4) act upon that moral concerns. It is obvious that without the first stage, other stages will not occur as noted by Hunt and Vitell (1986:761) that "*if the individual does not perceive some ethical content in a problem situation, subsequent elements of the model (developed by Rest) do not come into play*". Similarly, Jones (1991) suggests that if a person fails to recognize that he or she is dealing with a moral issue, the details of the moral decision making process will become irrelevant. In addition, according to Treviño, Weaver and Reynolds (2006), moral awareness is a critical stage because identifying an issue as ethically significant helps initiate ethical decision making and, more likely results in ethical behaviour. There is research evidence supporting the positive relationship between moral awareness and moral judgment (Singhapakdi, Vitell, & Kraft, 1996; Rottig, Koufteros, & Umphress, 2011) as well as between moral judgment and moral intention (Rottig et al., 2011). Then, based on the theory of reasoned action (Fishbein & Ajzen, 1975) and the theory of planned behaviour (Ajzen, 1991), it is likely that intention will lead to actual behaviour. In addition, empirical evidence from the experiment of Ariely (2012) supports that when moral awareness is stimulated, it will lead to moral intention and ethical decisions. Hence, studying what stimulates moral awareness is necessary for the thorough understanding of why someone acts either ethically or unethically. However, despite its importance, moral awareness has been examined by a limited number of studies, compared to studies of moral judgment, moral intent and moral behaviour (Rottig et al., 2011).

Moral awareness is defined by Rottig et al. (2011:167) as "*the ability of an individual to recognize an ethical issue, problem or dilemma*" or by Treviño et al. (2006:953) as "*an interpretive process wherein the individual recognizes that a moral problem exists in a situation, or that a moral standard or principle is relevant*

to the circumstances". Generally, moral awareness refers to the recognition of a moral issue in a given situation or circumstance. It is argued that different people have different levels of moral awareness (Rottig et al., 2011). Consequently, a moral issue which is relevant to one person, may not be relevant to another person. Furthermore, in a business and work environment, people frequently encounter situations in which they have to give priority to one moral value over another. The choice is tough and not all decision-makers remain on the moral side. This is what Kvalnes (2015) refers to as moral dilemma. As people can "*become blind to the moral dilemmas they face, by failing to see the moral dimensions of their choices*" (Kvalnes, 2015:10), it is necessary for them to first be aware of a moral value in order to deal with moral dilemmas in a responsible manner.

In business ethics literature, research evidence suggests that moral awareness is influenced by a variety of factors, which can be grouped into two categories: individual factors and organisational factors (Craft, 2013). *Individual factors* include age, gender, personality such as locus of control, education, work experience and so on. Ethical sensitivity is found to increase with age (Chan & Leung, 2006). When it comes to gender, females are said to have higher level of moral reasoning ability than males (Herington & Weaven, 2008; Eweje & Brunton, 2010) and people with internal locus of control are more likely to recognize ethical issues than those with external locus of control (Chan & Leung, 2006). Level of education and work experience is suggested to be positively related to moral awareness according to Eweje and Brunton (2010). *Organisational factors* on the other hand, consist of external factors from the work environment that affect individual level of moral awareness such as code of ethics and organisational ethical culture. The data from research on the relationship between code of ethics and moral awareness has provided mixed empirical evidence. O'Leary and Stewart (2007) found that the existence of a strong code of conduct did not appear to assist internal auditors to act more ethically when faced with a dilemma, while Pflugrath et al. (2007) proved that the presence of a code of conduct can improve the quality of auditors' judgments. Organisational ethical culture is also suggested to influence ethical sensitivity. Zhang, Chiu and Wei (2009) found that organisational ethical culture positively affects ethical sensitivity of employees. It seems that individual factors have received more attention from researchers than organisational factors which are also important antecedents of individual moral awareness.

Furthermore, questions may be raised concerning why Rest's (1986) conceptual model has been a prevalent model in ethical decision making research. In other words, the question here is why we base our study on Rest's model. The answer may be that such a model appears to be a useful framework for guiding the conceptual development and subsequent empirical studies in the field (Rottig et al., 2011). Even though there is a call for critical evaluation of Rest's conceptual model (O'Fallon & Butterfield, 2005), we found little research examining whether these four stages actually "*capture the essence of the individual ethical decision making process*" (2005:399) or whether there is any other stage that precedes, follows or intervenes between these four stages as suggested by O'Fallon and Butterfield (2005). Therefore, Rest's (1986) conceptual model is still a useful and reliable model in the field.

2.2. Code of ethics

In business setting, the boundary between right and wrong behaviours is quite ambiguous because "*ethical issues are beyond the codified laws and regulations set by an organisation's legal environment*" (Rottig et al., 2011:168). That is why organisations need explicit and formal guidelines such as code of ethics. Code of ethics is identified as one of the organisational factors that impact employees' ethical sensitivity or moral awareness in an organisation (Loe, Ferrel, & Mansfield, 2000; O'Fallon & Butterfield, 2005; Craft, 2013). According to Schwartz (2002:28), code of ethics is "*a written, distinct, formal document which consists of moral standards which help guide employee or corporate behaviour*". In other words, code of ethics states what behaviours are acceptable and what are not. Almost every profession needs guidelines on the boundary between acceptable and unacceptable behaviours because being a professional does not automatically make a person an expert in ethics (Ladd, 1980). It is necessary to note that the boundary between right and wrong or acceptable and unacceptable behaviour is not always clear because it depends on the social norms and values which vary across culture and organisations. In this sense, code of ethics is viewed as a clear, unambiguous statement of the community's expectations regarding how an individual should have acted in a given situation (McCabe, Trevino, & Butterfield, 1996) or as company's philosophy toward business ethics, along with a list of expectations from employees' behaviour concerning ethical issues (Rottig et al., 2011). Regarding the word used, some researchers use "code of conduct" while

others use “code of ethics”. Whether “code of ethics” or “code of conduct” is used, the authors imply the same concept. It is just a matter of labelling. According to Craft (2013), “code of conduct” which was widely used previously, was changed to “code of ethics” in 2000. Craft (2013) suggests that there was a shift in how people’s behaviour at work was seen, from “merely their demeanour (conduct)” to “a larger part of their overall morality (ethics)”. Hence, these two terms can be used interchangeably.

According to Ladd (1980), code of ethics has its own functions. These include: (1) to inspire members to be more ethical in their conduct; (2) to alert professionals to the moral aspects of their work that they might have overlooked; (3) to defend the integrity of the professional and to protect its professional standards; (4) to provide guidance on what to do in cases of moral confusion; and (5) to alert prospective clients to what they should expect from the service of a member of the profession concerned. In this way, code of ethics is important as it limits unethical behaviours and provides guidance in ambiguous situations.

Nevertheless, code of ethics is said to have some relative downsides, such as being a tool to improve and enhance the profession’s image in the public eye (Ladd, 1980; McKinney et al., 2010) and to regain trust from stakeholders in what McKinney et al. (2010) calls a crisis of trust in the marketplace. Consequently, merely having a code of ethics does not seem to make organisations more ethical in their conduct. Schwartz (2002) argues that a company can be judged an unethical company even when that company has created, implemented, and administered an ethical code of ethics in a thoroughly ethical manner. For example, Enron did have a written code of conduct (Verschoor, 2002 as cited in Rottig et al., 2011), but it still failed to foster ethical behaviours of its members. Therefore, the effectiveness of code of ethics is questionable.

Despite the widespread belief that a code of ethics is beneficial to organisations, empirical evidence is found to be mixed (McKinney et al., 2010). Specifically, before 1996, research found no significant impact between the existence of codes of conduct and ethical decision making or behaviour (e.g. White & Dooley, 1993; Kohut & Corriher, 1994; Simpson, Banerjee, & Simpson, 1994). In the period of 1996 - 2003, O’Fallon and Butterfield (2005) found that eleven studies reported a positive effect of code of ethics on ethical decision making (e.g., McDevitt & Hise, 2002), six reported mixed results and two revealed no significant findings. In the period of 2004-2011, the number of studies declined significantly.

Craft (2013) reported only five studies on this topic within this period. Three studies found codes of ethics positively affecting ethical decision making (Pflugrath et al., 2007; Deshpande, 2009; McKinney et al., 2010) and the other two (O’Leary & Steward, 2007; Rottig et al., 2011) suggested that the existence of codes of ethics were not sufficient to influence ethical behaviour or ethical awareness. Hence, more research on this topic is needed to examine the benefits of code of ethics for business ethics.

2.3. The relationship between code of ethics and moral awareness

As mentioned previously, code of ethics is beneficial and necessary only when its presence makes individuals and organisations as a whole aware of ethical issues and act in an ethical manner accordingly. Otherwise, a code of ethics is no more than a piece of decoration for an organisation’s image. Since ethical behaviour is the last stage in the ethical decision making process (Rest, 1986), in order for a code of ethics to have an impact on ethical behaviour, it needs to first stimulate individual ethical sensitivity or moral awareness of an issue. In addition, as most research findings indicate that code of ethics positively affect ethical behaviours (O’Fallon & Butterfield, 2005; Craft, 2013), codes of ethics could probably have positive impact on moral awareness.

O’Leary and Steward (2007) find that internal auditors, who have to comply with strict professional regulations and “Code of Ethics for Professional Accounts”, demonstrate a reasonably high sensitivity to ethical issues. Similarly, Rottig et al. (2011) suggested that code of ethics, in addition to other formal ethical infrastructure such as recurrent communication, formal surveillance and formal sanctions, is positively associated with moral awareness. These findings are supported by experiments of Ariely (2012) in which he found that when individuals were given reminders of ethical standards, they had a tendency to avoid cheating. Ariely (2012) argued that a small reminder of the moral standards was enough to improve moral behaviour. In this case, code of ethics acts as a reminder of moral standards which may stimulate individual moral awareness.

Hence, there is both theoretical justification and empirical evidence to support that code of ethics could probably have a positive effect on moral awareness as it is found to make individuals more sensitive to moral issues when facing a dilemma. Therefore, we propose the following hypothesis:

Hypothesis 1 (H1): *Code of ethics is positively related to moral awareness*

Overall, we hypothesize that when ethics code is presented, people will be more morally sensitive compared to when it is not. However, this relationship could also be affected by other factors such as the personality style that one has.

2.4. Locus of control as a moderator

A personality factor that has been found to influence ethical behaviour is locus of control. Locus of control refers to an individual's perception of how much control he or she exerts over events in life (Rotter, 1966). Individuals who base their success on their own work and believe they can control their lives, have an internal locus of control. In contrast, people who attribute their success or failure to outside influences have an external locus of control (Zimbardo, 1985). Locus of control is not something a person is born with, but develops over time through interaction with other people and the social environment (Treviño & Nelson, 2010). This aspect is important, since it means that it is possible to learn to change one's own locus of control.

We found 19 previous studies between 1978-2012 where locus of control had been studied in relation to ethical behaviour (Craft, 2013). The findings were mixed and in 10 of the findings they found that internal locus control was positively related to ethical decision-making and external locus of control was negatively related to ethical decision-making (e.g. Shapeero, Chye Koh, & Killough, 2003; Street & Street, 2006). The other 9 studies found no significant differences (e.g. Forte, 2004). Because of the inconsistency, Street and Street (2006) called for more empirical evidence regards locus of control and ethical decision making, especially towards moral awareness and intensity. When it comes to the relation between locus of control and moral awareness, the findings are only one (e.g. Ho, 2010). However, the other studies have linked locus of control to the ethical decision making and according to Rest's (1986) conceptual framework, moral awareness is the first step in the decision making process, hence it justifies our assumptions.

There is general agreement among scholars concerning the individual variables influence ethical decisions according to three major ethical decision making reviews (Loe et al., 2000; O'Fallon & Butterfield, 2005; Craft, 2013). Hence, it is concerning that these factors have not been taken into consideration when examining the relationship between code of ethics and moral awareness. We, therefore, question whether the inconsistency of the previous studies is due to

personality factors. This leads us to the second hypothesis with underlying assumptions:

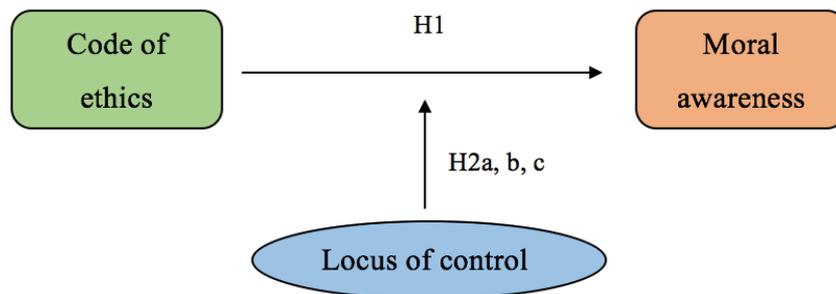
Hypothesis 2 (H2a): *Locus of control moderates the relationship between code of ethics and moral awareness*

(H2b): *Individuals with internal locus of control have higher effect from code of ethics*

(H2c): *Individuals with external locus of control have lower effect from code of ethics*

In general, we hypothesize that locus of control, one aspect of personality, affects the relationship between code of ethics and moral awareness in the way that the internals will have stronger effects than the externals. In other words, they will be more critical when it comes to ethical issues. The relationship between these constructs is summarized in Figure 1.

Figure 1. Relations between constructs



3. Research method

3.1. Sample and procedures

3.1.1. Sample

A quantitative study was conducted with a survey questionnaire being sent to 500 individuals who are students at BI Norwegian Business School and University of Oslo as well as people from our social and professional network. The objective was to recruit a diverse group of participants to avoid bias in ethical view from one specific group. It is suggested that sample size between 30 and 500 is mostly sufficient for researchers (Altunisik et al., 2004 cited in Delice, 2010) and that sample size should not be "too big" because it can make an effect of little scientific importance detectable which then influences overall results (Lenth, 2001). The response rate is 80%, but the dropout rate is approximately 35% which resulted in total 272 responses from all groups.

3.1.2. Procedures

The research plan was reported to Norsk Samfunnsvitenskapelig Datatjeneste (NSD) for approval, followed by a pilot study which aimed to address deficiencies in the design of the questionnaire and the planned procedure. Feedback on pilot study was taken into account and some changes were made.

Qualtrics Survey Software - an electronic online questionnaire - was used to collect responses. Emails with survey link were sent to participants in both English and Norwegian, providing information about the study (Appendix 1). In order to ensure and encourage honest responses, the respondents were assured of anonymity.

Participants were divided into two groups, namely control group and treatment group. The treatment group was required to declare that their answers would be honest and in accordance with their organisation's code of ethics, while the control group was not asked to do so. Such process enables comparison of the difference in moral awareness between treatment group with honesty declaration (as a reminder of code of ethics) and control group.

3.2. Measures

The survey questionnaire consisted of three different scenarios taken from Rottig et al. (2011) with an adjustment in the scale used and a shorter version of Locus of control test taken from Rotter (1966) in which 6 unscored questions were omitted (Appendix 2) and took approximately 10 – 15 minutes to complete. Hence, the questions used in this study had already been tested in previous studies and proved to have construct validity.

3.2.1. Moral awareness

In order to measure moral awareness, a pre-validated scale assessing the perceived importance of an ethical issue (PIE scale) developed by Robin, Reidenbach and Forrest (1996) was used. Haines, Street and Haines (2008) found that PIE was a predictor of moral judgment which means that when an individual judged an ethical scenario as high in PIE scale, he or she was more likely to judge the ethical scenario as immoral. This implies involvement of ethical considerations or moral awareness. Rottig et al. (2011) suggested that this scale was appropriate to measure whether ethical considerations were embedded in a specific action. In addition, it is argued that scenarios may reflect situations in real life context which are familiar to respondents and can be evaluated from an ethical perspective (Reidenbach & Robin, 1988).

Subjects were asked to indicate how they felt about the actions taken in each scenario on a 7-point Likert scale (e.g. ranging from 1-unimportant issue to 7-extremely important issue). A score higher than 3.5 indicates that moral awareness has been activated. Moral awareness was compared between two groups using these scores.

3.2.2. Locus of control

Locus of control was measured using Rotter's (1966) Internal – External LOC scale. Twenty-three from twenty-nine questions were used. As six omitted questions were unscored, the results getting from such shorter version would be similar to that when using the original one.

The participants were forced to choose between an internal and external statement that most accurately reflects their views. One point is given to each external statement chosen and no point for each internal statement. Participant with the highest point of 23 is the person with highest external locus of control and vice

versa, participant with 0 point is the person with highest internal locus of control. One sample item is the choice between two statements: "No matter how hard you try, some people just don't like you" (external) and "People who can't get others to like them don't understand how to get along with others" (internal).

Rotter's scale is shown to be reliable (internal consistency is around 0.7, test-retest reliability ranges from 0.49 and 0.83) and have discriminant validity (Rotter, 1966).

3.2.3. Control variables

There are a number of factors found to have effect on moral awareness in ethical decision making literature. Gender has received considerable attention, compared to other variables. A number of studies can be identified regarding the effect of gender on ethical decision making. There are two main streams of research evidence, either no significant difference between gender (Singhapakdi and Vitell, 1990; Valentine and Rittenburg, 2007) or female are identified as more ethical than males (Herington and Weaven, 2008; Eweje and Brunton, 2010). Based on these findings and the potential effect of gender on moral awareness, this variable was controlled and participants were asked to state their gender, either male (coded 1) or female (coded 2).

Age is another variable that is reported in many studies on ethical decision making. Different from gender, age receives almost consistent support that older individuals are more ethically sensitive (Karcher, 1996; Krambia-Karpadis & Zopiatis, 2008). Therefore, age was also controlled and we asked participants to state their ages in one of these following groups: 20 – 30 (coded 1), 31 – 40 (coded 2), 41 – 50 (coded 3) and 51+ (coded 4). As we aim to study people with work experience, the age group below 20 was excluded.

In addition, education level and work experience tend to be positively related to moral awareness. Sparks and Hunt (1998) find that practitioners are more ethically sensitive than students. In another study, Krambia-Karpadis and Zopiatis (2008) suggest that managers are more ethical than non-managers regarding perception. Consequently, these variables were also controlled and measured as categorical variables. Participants had to fill in their education level, ranging from Bachelor (coded 1), Master (coded 2), PhD (coded 3) to Others (coded 4) and their year of work experience, from less than 1 (coded 1), 1-3 (coded 2), 4-6 (coded 3), 7-9 (coded 4) to 10+ (coded 5).

4. Analysis

The dataset was exported from Qualtrics Survey Software to Microsoft Excel for data arrangement which was then imported to SPSS Statistics Software 22.0 for data analysis. In total, 272 valid responses, without missing data, were recorded and analysed. A summary of the sample demographics is given in Table 1.

Table 1. Sample demographics

Variable	Categories	Frequency	Percent
Gender	Male	116	0.43
	Female	156	0.57
Age	20 - 30	223	0.82
	31 - 40	24	0.09
	41 - 50	12	0.04
	51+	13	0.05
Education level	Bachelor	124	0.46
	Master	129	0.47
	PhD	8	0.03
	Others	11	0.04
Work experience	Less than 1	56	0.21
	1 - 3	80	0.29
	4 - 6	74	0.27
	7 - 9	27	0.10
	10+	35	0.13

As can be seen from this table, the vast majority of respondents are in the age group of 20 – 30 (82%) and have at least one-year experience at work which can be either fulltime or part time (approximately 80%). Most respondents are at either Bachelor (46%) or Master level (47%). The gender is almost equal in this sample with female (57%) slightly outnumbers male (43%). Overall, the demographic background of this sample varies in terms of work experience, education level and gender, but not much in terms of age. These variables were controlled for their effects over moral awareness as the effect of code of ethics was our main concern.

Prior to testing the hypotheses, the reliability of the scale used (PIE scale) was double-checked to ensure that it is reliable with our sample because the

reliability of a scale varies depending on the sample (Pallant, 2010). Cronbach's alpha coefficient is 0.908 (Appendix 3), implying that this scale has high internal consistency and all items measure the same underlying construct which is moral awareness. According to Pallant (2010), Cronbach's alpha values above 0.7 are acceptable but above 0.8 are preferable.

Hypothesis 1 was tested in two stages. First and foremost, single regression analysis was performed to assess the relationship between code of ethics and moral awareness. Regression analysis is said to be a powerful analytical tool that is designed to explore all types of dependence relationships whereas dependent variable is explained or predicted with one or more independent variables (Hair, Black, Babin, & Anderson, 2014). Then, ANOVA analysis was applied to check the differences between two groups in terms of moral awareness because ANOVA is considered as a test of hypothesis that is appropriate to compare means of a continuous variable in two or more independent comparison groups (Sullivan, Boston University). The dependent variable is moral awareness (coded MA1, MA2, MA3 for scenario 1, 2, 3 respectively) and independent variable is code of ethics (coded COE with value of 1 for treatment group and 0 for control group). As regression analysis and ANOVA analysis assumes that the variables in the analysis satisfy the assumptions of normality, homogeneity of variance and independence of observations, descriptive statistics were performed prior to the testing of this hypothesis to ensure no assumption was violated (Lund & Lund, 2013).

In order to evaluate the moderating effect of locus of control (coded LOC) on the relationship between code of ethics and moral awareness, hypothesis 2a, b and c were tested using hierarchical multiple regression procedure. Nunnally, Bernstein and Berge (1994) suggest that hierarchical regression analysis is appropriate to test the effects of a third or moderating variable on the relationship between two variables. The main focus of hierarchical regression is on the change in the relationship between two variables when a third variable is entered later in the analysis (Petrocelli, 2003). The moderating variable (coded moderatorLOC) was computed by taking the product of the value of code of ethics (1,0) and the scores on locus of control test since the effect of locus of control was examined only with the presence of code of ethics (COE =1). The regression procedure started with code of ethics being entered as a single independent variable in the first step and then moderating variable was added in the next step.

5. Results

5.1. Descriptive statistics

The means, standard deviations and correlations for the measured variables are shown in Table 2. Assumptions of normality, homogeneity were assessed using descriptive statistics. Normal distribution was checked for each scenario and the scores on scenario 1 appears to be reasonably normally distributed. As shown in histograms (Appendix 4), most scores occur in the centre of the distribution and the distribution is reasonably bell-shaped. Inspection of the shape of distribution when assessing normality is recommended by Tabachnick and Fidell (1996). This is also supported when looking at the normal probability plots (Normal Q-Q Plot) where scores are plotted along a reasonably straight line, indicating a normal distribution (Pallant, 2010). No outliers are detected in the boxplot (Appendix 4). Homogeneity of the variance were examined with Levene's test where p-value of the test is $0.395 > 0.05$ (Appendix 5), implying no violation of this assumption. For assumption of independence of observation, we assume that we have satisfied this assumption as the survey was randomly delivered to different individuals. Overall, scores on scenario 1 (MA1) have satisfied the assumptions necessary to perform linear regression and ANOVA analysis.

However, for scores on scenario 2 (MA2) and 3 (MA3), even though assumption of homogeneity is satisfied (p-values of Levene's test are 0.712 and 0.950 respectively, see Appendix 5), there is violation of normal distribution assumption. Both are negative skewed where skewness values are -0.806 and -1.1 for MA2 and MA3 respectively. Hence, linear regression and ANOVA analysis is not applicable for scenario 2 and 3.

Table 2: Correlation matrix

Variable	Mean	SD	1.	2.	3.	4.	5.	6.
1. COE	.59	.493	1					
2. Gender	1.57	.495	.291**	1				
3. Age	1.32	.771	-.050	-.047	1			
4. Education	1.66	.756	.031	.027	.186**	1		
5. Work exp.	2.65	1.271	-.224**	-.056	.656**	.030	1	
6. MA	5.01	1.133	-.123*	-.065	.167**	.136*	.125*	1

N = 272, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

COE = Codes of Ethics; MA = Moral Awareness; SD = Standard deviation

5.2. Hypothesis 1

Hypothesis 1 expects code of ethics to be positively related to moral awareness which suggests that when code of ethics is presented, the scores on ethical scenarios will be higher than when there is no reminder of code of ethics.

First, hierarchical linear regression was performed to examine the relationship between code of ethics and moral awareness (MA1) while controlling for the effects of age, gender, education level and work experience. This procedure consisted of two steps (Pallant, 2010). In the first step, control variables, including age, gender, education level and work experience were included and found to explain 4.4% of the variance in moral awareness (p-value of step 1 is $0.016 < 0.05$). Nevertheless, none of these variables has statistically significant effects on moral awareness at significance level of 0.05 (all p-values are greater than 0.05). When code of ethics was added in the second step, the variables explained 5.5% of the variance in moral awareness with an increase in R square from 0.044 to 0.055, indicating that step 2 is better predictor of moral awareness (p-value of step 2 is $0.01 < 0.05$). However, none of the variables in step 2 made statistically significant contribution to the prediction of moral awareness. Code of ethics has β coefficient equal to -0.252 which implies a negative relationship with moral awareness. But since p-value is $0.09 > 0.05$, this relationship is not statistically significant. Table 3 shows model summary and regression coefficients of step 1 and step 2.

We further performed ANOVA analysis to evaluate whether there was significant difference in the level of moral awareness between control group and treatment group. In other words, whether a reminder of code of ethics had made any difference in the level of individual moral awareness. The result shows significant difference in the mean values of two groups, 5.18 and 4.89 for control and treatment group respectively with p-value 0.043 (< 0.05) (Table 4a, 4b). As the mean value of treatment group is lower than that of control group who did not had to declare anything related to code of ethics, code of ethics appears to have negatively affected the level of moral awareness. However, as the relationship between code of ethics and moral awareness was shown to be non-significant in hierarchical linear regression, hypothesis 1 was not supported. It is, according to the result, not possible to conclude whether code of ethics has statistically significant positive relationship with moral awareness.

Table 3. H1: Model summary and regression coefficients

Variables	Moral awareness	
	Step 1	Step 2
Control variables		
Age	0.168	0.196
Gender	-0.137	-0.067
Education level	0.173	0.173
Work experience	0.039	0.007
Independent variables		
Code of ethics		-0.252
Overall model		
R ²	0.044	0.055
ΔR ²	0.03	0.037
F	3.09	3.067
P-value	0.016 ^a	0.010 ^b

N = 272, *p<0.05, **p<0.01, ***p<0.001

Note: Dependent variable: MA1

- Predictors: (Constant), age, gender, edu, work exp
- Predictors: (Constant), age, gender, edu, work exp, COE

Table 4a. H1: Mean values of control group and treatment group

	N	Mean	Std. Deviation	Std. Error
0	112	5.17	1.12688	.10648
1	160	4.89	1.12593	.08901
Total	272	5.01	1.13285	.06869

Table 4b. H1: ANOVA analysis

MA1	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	5.261	1	5.261	4.147	.043
Within Groups	342.524	270	1.269		
Total	347.785	271			

5.3. Moderation analysis and hypotheses 2a, b, c

Hierarchical linear regression was performed to test the moderating effect of locus of control on the relationship between code of ethics and moral awareness after age, gender, education level and work experience were controlled. This procedure involved three steps. In the first step, four control variables were entered whereas code of ethics (COE) was added in the second step and product of COE and LOC (moderatorLOC) was added in the third step. Step 3 was found to better explain the variance in moral awareness which is 7% compared to 4.4% and 5.5% of step 1 and step 2 (p-value of step 3 is $0.004 < 0.05$, see table 5). ModeratorLOC has β coefficient equal to -0.048 which indicates negative relationship with moral awareness. This relationship is statistically significant (p-value is $0.037 < 0.05$). This means that when individual scores higher on locus of control test, he or she will tend to have lower scores on moral awareness and vice versa, even when there is a reminder of code of ethics. Hence, hypothesis 2a is supported.

High scores on locus of control test result in external locus of control with a maximum of 23 whereas low scores imply internal locus of control with a minimum of 0 (Rotter, 1966). In other words, individuals with internal locus of control score higher on moral awareness and individuals with external locus of control tend to score lower on moral awareness when a reminder of code of ethics is presented. Thus, hypotheses 2b and 2c are supported. Table 5 shows model summary and coefficients of hierarchical linear regression.

Table 5. Model summary and regression coefficients

Variables	Moral awareness		
	Step 1	Step 2	Step 3
Control variables			
Age	0.168	0.196	0.155
Gender	-0.137	-0.067	-0.038
Education level	0.173	0.173	0.168
Work experience	0.039	0.007	0.012
Independent variables			
Code of ethics		-0.252	0.286
Moderator			
Locus of control			-0.048*
Overall model			
R ²	0.044	0.055	0.07
Adjusted R ²	0.03	0.037	0.049
F	3.09	3.067	3.318
P-value	0.016 ^a	0.010 ^b	0.004 ^c

N = 272, *p<0.05, **p<0.01, ***p<0.001

Note: Dependent variable: MA1

- a. Predictors: (Constant), age, gender, edu, work exp
- b. Predictors: (Constant), age, gender, edu, work exp, COE
- c. Predictors: (Constant), age, gender, edu, work exp, COE, moderatorLOC

6. Discussion

The objective of this study is to examine the relationship between code of ethics and moral awareness and evaluate the impact of locus of control on that relationship. With this study we want to see if the reason for the previous inconclusive results within the effect of code of ethics is because individual differences were not included, such as locus of control. The following section will address the overall research question that whether code of ethics has positive effect on moral awareness and whether locus of control moderates that relationship. Results from the analysis will also be discussed.

As regard to the hypothesized relationship between code of ethics and moral awareness, hypothesis 1 was neither supported nor weakened. Our findings are consistent with present theory and research on moral awareness and ethical decision making. Specifically, the hypothesized positive relationship between code of ethics and moral awareness is still inconclusive. Among the mixed empirical evidence, many studies have found that awareness of code of ethics or the existence of code of ethics itself does not have significant impact on ethical decision or behaviour (White & Dooley, 1993; Kohut & Corriher, 1994; Simpson et al., 1994; O'Leary & Steward, 2007; Rottig et al., 2011). Kohut & Corriher (1994:37) suggested that "*knowledge of a company's code of ethics had no significant impact on ethical business decision making*" and argued that it was not the existence of code of ethics that mattered, but the way how it was communicated that affected the decision making process of its employees. Similarly, O'Leary and Steward (2007) also found that a strong organisational code of conduct and corporate governance did not appear to make internal auditors to be more ethical when facing a dilemma even though they demonstrated high sensitivity to ethical issues. In the scope of our study, we did not find a significant relationship between code of ethics and moral awareness. However, what surprised us was that this relationship had a tendency to be negative even when it was not statistically significant. Some explanations can be given to that tendency. First, age and years of experience of the participants could be one reason for that, since our control group had slightly higher average of age and experience. According to other studies (Karcher, 1996; Krambia-Karpadis & Zopiatis, 2008), level of moral sensitivity increases with age and work experience. This could have probably led to higher level of moral awareness for the control group, compared to the treatment group. Second, it could be the attention of the

respondents in the treatment group. They might not have paid attention to the honesty declaration of the test and just moved on with the scenarios. Third, there might be misunderstanding or confusion with the questions given. They might have been confused with the scale used. Another reason could be the settings when they took the test that distracted them because it was an online test and participants could take it whenever they had time. Furthermore, they might not have taken the test seriously as there would not be any negative consequences for dishonest responses.

Despite inconclusive relationship between code of ethics and moral awareness, it seems that individual differences have impact on that relationship. Our study found that locus of control significantly moderated the extent to which code of ethics influenced moral awareness, which supported our hypothesis 2a-c (Table 5). When there is a reminder of code of ethics, people with external locus of control tend to view unethical issues as less important than people with internal locus of control. This finding is also in line with other studies on locus of control and ethical decision making. Chan and Leung (2006) suggested that accounting students with internal locus of control were more likely to recognize an ethical issue than those characterized as "externals". Similarly, individuals with internal locus of control were found to regard organisational behaviours of an uncertain ethical nature as generally unacceptable whereas those with external locus of control regard them as generally acceptable (Reiss & Mitra, 1998). Nevertheless, since the relationship between code of ethics and moral awareness is non-significant while locus of control has a significant negative relationship with moral awareness, it is possible that locus of control has direct effect on moral awareness, not a moderating effect. Furthermore, although the effect of locus of control is significant, it was so minor (β coefficient is -0.048) that we believe there is not much difference in the level of moral awareness between the internal and the external.

Regarding control variables, age, gender, education level and work experience were found to be non-significantly related to moral awareness in the scope of our study. Although differences in age, gender, education level as well as work experience are suggested to influence ethical decision making differently (Karcher, 1996; Sparks and Hunt, 1998; Herington and Weaven, 2008), we did not find these effects significant in our study. One reason could be that the sample size was not big enough for those variables to have significant impacts on moral awareness. Another reason to mention is that our sample did not vary significantly in terms of age, gender, education level and work experience. With regard to age,

82% of the participants were young individuals at the age between 20 and 30 years old. Further, gender was almost equally distributed between male and female who scored almost similarly on PIE scale. Also, there was not much difference in the level of education and work experience of the participants which led to similarity in the score on moral awareness. Even though the effects of these control variables were not significant in our study, we have taken them into consideration due to the fact that other studies have proven their effects (Karcher, 1996; Herington and Weaven, 2008; Krambia-Karpadis & Zopiatis, 2008).

Another point worth mentioning here is that all the results found were only for scenario 1. The responses to scenario 2 and 3 were negatively skewed to the right with higher mean values of moral awareness than that of scenario 1 and there was non-significant difference for both control group and treatment group. Although the responses to scenario 2 and 3 did not satisfy the assumption of normal distribution as mentioned previously, we did the ANOVA analysis for these scenarios as well, just to check the difference between two groups (Appendix 6). In average, participants in two groups scored almost similarly on scenario 2 and 3 (5.31 and 5.34 for scenario 2 and 5.62 and 5.76 for scenario 3, control and treatment group respectively). After looking carefully at three scenarios, we could only find that the content was the only fundamental difference between scenario 1 and the other two scenarios. Rottig et al. (2011) has mentioned such difference in his study, with scenario 1 presenting the least intense situation, compared to scenario 2 and 3. Scenario 1 involves a manager who does nothing to stop his overeager young subordinate from exaggerating product's value and withholding information from their customers. Scenario 2 presents the case where a grocery store retailer increases prices on the days welfare checks are issued and scenario 3 involves the dealer who withholds full adjustment of the car to charge fee when the warranty expires. We, therefore, believe that when it comes to common issues where the boundary between ethical and unethical behaviours is vague as in scenario 1, code of ethics could have more effects on moral awareness, regardless of whether it is positive or negative. However, with issues that are clearly unethical as in scenario 2 and 3, code of ethics might not have any effect as people have already been aware of ethical issue whether or not code of ethics exists.

Furthermore, the formulation of code of ethics is also a concern. With a list of code of ethics' functions (see chapter 2.2), Ladd (1980) argued that ethical principles could not be formulated by organisations only because "*ethics itself is an*

open-ended, reflective and critical intellectual activity" (Ladd, 1980:130). By this he means that the individuals who are going to use the ethical standards, need to understand why and how to use it, which – suggested by Ladd – can be achieved through discussing dilemmas by argumentation and testing personal perception. To our knowledge, Ladd is one of the most critical authors towards the relevance and necessity of code of ethics. In our study, code of ethics was found to have no significant effect on moral awareness, which question the effect code of ethics has by itself. What if code of ethics was rules, would it have higher effect? Or is it the fact that it is only a written reminder (not communicated and explained) that makes it lack of effect? Two studies which have focused on how goals are communicated are Li and Butler (2004) and Locke and Latham (1990), finding that how the rationale for goals communicated influenced their organisational members' commitment to the goals. If that is so, it may be that how code of ethics is communicated influences its impact on organisational members. Further, in Deshpande's (2009) study, it is pointed out that in addition to code of ethics it is important to have processes in place to insure that ethical considerations were part of the decision-making process used by employees. Could it be that those studies which have shown positive effect (O'Leary and Steward, 2007; Rottig et al., 2011; Ariely, 2012) have actually been affected by internal processes or context in which code of ethics is formulated and used? For example, in Ariely's experiments (2012), his physical presence might have some effect on the participants' attention and hindered their cheating intention. In addition, Kvalnes (2015) has argued that circumstances, such as organisational climate and communication norms, can considerably affect decision-maker's moral convictions and that the settings in ethics training can be quite distant from the complex situations in everyday work life. This has further led us to question the widespread belief that code of ethics strengthens organisations' ability to deal with situations which involve ethical issues and that ethics training effectively equip management team and employees when they face ethical challenges. We do not reject the benefits of ethics training as it more or less activates moral awareness. However, what we concern is that ethical analysis should not only be in a context of seminar rooms but should also be practiced frequently in everyday work life. Moreover, negative consequences associated with not complying code of ethics may be not always effective in preventing people from unethical behaviours since wherever there is law, there is lawbreaker. In addition, one side effect of detailed code of ethics is that it can lead

to loophole ethics where individuals assume that anything not stated in the code, is morally acceptable (Kvalnes, 2015). In this case, the code may not increase moral awareness, but even incentivise people to look for loopholes in the code for their own benefits. As the code, itself, is not perfect and needs frequent review, its effect on moral awareness may be questionable. It is suggested by Kvalnes (2015) that moral reasoning at work should have a balance between written codes and personal and communal moral judgment. In order for such balance to be achieved, individuals, first of all, need to have moral sensitivity. Therefore, ethics training is necessary to raise moral awareness and integrity among organisation's members and build up a transparent work environment which take time and cannot be achieved in one day.

Overall, moral awareness of a person is influenced by his or her personality, in this case locus of control, which forms his or her moral convictions. Whether he or she stays loyal to these moral convictions is affected, to some extent, by the organisational climate and corporate governance including code of ethics (not code of ethics itself, but the way how it is formulated and communicated) and ethics training. Therefore, we suggest that in order for organisations to deal with ethical challenges in a responsible manner, code of ethics should be in place, accompanied by proper ethics training and transparent work environment. But before it is put in place, code of ethics should be discussed, understood and agreed among the organisation's members, not only the management team, but also the employees, to ensure that it is not mere word and clichéd reminder. Organisations should focus on this internal process, rather than trying to fulfil the external expectations and using code of ethics as a tool to build up image in the public eye.

6.1 Main findings

In general, our study suggests that the positive effect of code of ethics on moral awareness is still questionable. The mere presence of code of ethics itself does not seem to be sufficient for ethical behaviours in organisations. Also, code of ethics is found to have more effect on people with internal locus of control than those with external locus of control. Even though the effect is minor, the internals seem to be more sensitive to unethical issues whereas the externals do not seem so. Hence, moral reasoning at work seems to go beyond the compliance of code of ethics. Therefore, it is suggested that code of ethics should be accompanied by

proper ethics training and organisations should focus on the internal process in which code of ethics is formulated, communicated and used.

7. Limitations and future research

Our study has a number of limitations which also suggest some directions for further research. The first limitation might be the use of student as the majority focus group. Peterson (2001) did a meta-analysis on college students in social science research and found that in general, these studies are not generalizable. He emphasized the importance of replicating these studies in other contexts, such as work places. When we started this study, we wanted to focus on work place, but due to lack of willingness from the companies we contacted and the time limit, we did not manage to get these data. Hence, generalization is also a limitation for our study (Peterson, 2001; Hair et al., 2014).

Second, our result may also be limited due to the collection of the sample. We believe that the length of our survey, which took 10-15 minutes to complete, might have led to fewer people completing it. In addition, the result could have been affected by nonresponse bias which means there may be bias resulting from considerable difference between respondents and non-respondents. Out of the 462 who started the questionnaire, only 272 completed. Further, we could see that the majority who did not fulfil the survey, stopped when they were going to sign the code of ethics, even though it was not required to sign it. Since we cannot ask these respondents why, we can only assume that they chose to end the survey instead of not signing it. Another cause for low response rate could be that they only got the e-mail once, not repeatedly. According to Armstrong and Overton (1977), the rate of respondent will be maximized if the respondents are contacted three times, which we would recommend for further studies.

In addition to the focus group and the collection of the sample, a third limitation of our study could be the way code of ethics is presented to participants. Indeed, code of ethics is more than just a single and simple reminder as presented in our questionnaire. As to its definition, code of ethics is a written, distinct, formal document of moral standards that guide employee or corporate behaviour (Schwartz, 2002), which varies among different professions. Consequently, by simply answering "Yes" to the statement: "*I confirm that my answers in this part are honest and in accordance with my organisation/school's code of ethics*" might not be sufficient to make the respondents fully aware of the content of related code of ethics. Hence, a better way to measure the effect of code of ethics may be to conduct studies in specific industries where there are explicit codes of ethics and

then combine them to have an overall picture. Not able to conduct study in a specific industry is one shortcoming of our study. Initially, we intended to conduct our study in pharmaceutical industry where people have to follow their own professional code of ethics. However, getting them to be part of our study was quite challenging because they did not want to participate in our study afterward. Therefore, future research could cover this shortcoming and focus on specific industries which closely related to real work experience.

The cross-sectional design of our study could be another limitation as it only examined the effect at certain point in time whereas code of ethics is expected to have long lasting effect for organisations to conduct in an ethical and responsible manner. Although the effect was not found significant in the scope of our study, we suggest that future research should study time effect of code of ethics. Since there is research evidence supporting both sides of the argument that whether the existence of code of ethics has long lasting effect on moral awareness (McCabe et al., 1996; Rottig et al., 2011; Ariely, 2012), more longitudinal studies are needed in this field to draw a firm conclusion.

The scenarios used could be a further limitation. Although it is argued that scenarios may reflect situations in real life context (Reidenbach & Robin, 1988), they may oversimplify the reality and may not be familiar to certain participants which may cause confusion. Likewise, language used in the scenarios can be an obstacle to some respondents. Although the questionnaire was kept in the original English language, majority of our participants did not have English as their mother tongue which might cause misunderstanding of the scenarios and lead to unreliable results. Another factor that could possibly affect the result was the situational influences (Crane & Matten, 2016), such as the news available on the day the participants doing survey (Lang & Lang, 2006). For instance, if there had been news concerning ethical issues on that day, the participants could have probably been more aware of unethical issues in our scenarios, compared to when there was not. Similarly, if the participants had recently taken ethics course, they would also have been more sensitive to unethical issues. It is obvious that the result can be influenced by many factors, including the context.

A final limitation concerns the locus of control test developed by Rotter (1966). Even though the test has been proven to have test-retest reliability and discriminant validity, it is still a self-report questionnaire. Participants might feel they have more or less control than they actually have in real life which could have

affected the accuracy of the result. Also, Rotter himself (1975:62) suggested that "*all questionnaire are subject to error under particular testing conditions*" and gave example that alcoholics appear to be more internal on the test scores than college students due to the fact that they have been told many times by many people that the treatment is "up to them", which may influence their self-perception towards control.

In the light of future research, it would be interesting to understand the effect of the process in which codes of ethics are formulated, communicated and used. As mentioned previously, we doubt that a code of ethics as mere words has effect itself. There should be a process that mediates the relationship between code of ethics and moral awareness. This suggests that future research should pay more attention to the process when studying code of ethics' effect. On the other hand, it is also practical to find out which process is most effective.

8. Theoretical and practical implications

Despite its limitations, this study still has relevant theoretical and practical implications. The strength of this study is the combination of individual and organisational factors, which is locus of control and code of ethics respectively. Further, the study contributes to the existing literature by replicating previous studies which were inconclusive and adding individual factors with the aim of trying to explain why it has been inconclusive.

8.1 Theoretical implications

Both code of ethics and locus of control have been studied well when it comes to their relationship to moral awareness, but not in combination. This study sheds light on the effect of code of ethics and whether locus of control has a moderating effect on its relationship towards moral awareness. Even though the relationship between code of ethics and moral awareness is inconclusive in our study, it is still an interesting finding in that it indicates those relationships may be more complex than previously thought and more factors should be studied as mediators to have the whole picture on what actually affects moral awareness. It is found that locus of control moderates the relationship, but it is so minor that it is possible that locus of control has direct effect on moral awareness as suggested by Ho (2010). Another concern resulting from our study is that the method used to measure the effect of code of ethics should be reconsidered. Simply signing an honesty declaration without any consequences, as used in Ariely (2012), might not be the best way to measure the effect of code of ethics. Another aspect that should be included is whether the person has previous ethical/moral training or not, and how long it is since the training. Previous studies have not taken this into account, and neither have we.

8.2 Practical implications

Focusing on practice, we think that code of ethics is necessary for companies, but it is only necessary when its motivation is right. Most companies today have code of ethics and use them as a justification for their practice. Unfortunately, there is a well-known rift between science and practice in general (Rynes, Colbert, & Brown, 2002; Burke, Drasgow, & Edwards, 2004). Current research does not necessarily prove the direct link between cause and effect of having code of ethics (White & Dooley, 1993; Kohut & Corriher, 1994; Simpson

et al., 1994; McDevitt & Hise, 2002; O'Leary & Steward, 2007; Pflugrath et al., 2007; Deshpande, 2009; McKinney et al., 2010; Rottig et al., 2011). However, this does not mean that it is negative to have one. In our discussion, we have highlighted the importance of the organisation's internal motivation of having a code of ethics, hence the internal process within the organisation might be of greater importance than the individual differences and the written code itself. Since our study implies that individual differences such as locus of control has little moderation effect on moral awareness, it might be possible to learn to be more moral aware of ethical issues, which can lead to ethical behaviour (Rest, 1986; Hunt and Vitell, 1986; Jones, 1991; Treviño, Weaver, & Reynolds, 2006; Ariely, 2012). Education programs on business ethics for students and internal courses/discussion groups should be encouraged to develop and increase moral awareness in companies. This then makes the company's focus more on internal processes (Deshpande, 2009; Rottig et al., 2011) and builds up a culture that values integrity and ethical conduct.

9. Conclusion

The purposes of this study were to examine the effect code of ethics has on moral awareness and to evaluate the moderating effect of locus of control on that relationship. We found that the relationship between code of ethics and moral awareness is still questionable and inconclusive and locus of control does moderate that relationship, even though its effect is minor. People who have internal locus of control seem to be more sensitive to unethical issues than people with an external one. These findings indicate that there may be other factors that have been missing in the relationship, and therefore more studies in this field are needed, especially studies on the mediators of this relationship, such as ethical training, ethics courses, discussion groups, situational influences and encouragement from leaders. Further, since the relationship between code of ethics and moral awareness is unclear, but locus of control does have effect on moral awareness, we suspect that it could probably be a direct effect, rather than a moderating effect.

However, code of ethics is still crucial for organisations as long as the motivation for having the code is right, not as a justification against misconduct of single employee (Kvalnes, 2015). To encourage moral reasoning at work, code of ethics should be accompanied by proper ethics training and organisations should focus on the internal process in which code of ethics is formulated, communicated and used (Rottig et al., 2011; Deshpande, 2009).

The findings are important for organisations and companies to consider, and will narrow the gap between practice and research. Research on what increases individuals' moral awareness is far from complete and a number of studies remain inconclusive. Thus, we hope these findings will encourage companies to participate in further research, enabling researchers to get further on their research roads to find appropriate guidance on how ethics can be best applied in practice.

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Appendix

Appendix 1: Email to participants

In English

Dear participant,

Thank you for your participation in this survey which measures your views on common dilemmas. We really appreciate your time, since it is essential for our master thesis.

The survey contains three different parts:

1. Personal information
2. Three short dilemmas
3. Personality test

and should not take more than 10-15min to complete. Your response is strictly anonymous and cannot be traced back to the respondent. This survey will be used for research purpose only. If you have any concern, please contact

hanh.t.doan@student.bi.no or ihna.stallemo@student.bi.no

Here is the survey link: _____

By answering this survey, you will have chance to participate in the lucky draw for a 500kr gift card

Best regards,

Hanh Doan and Ihna Stallemo

In Norwegian

Kjære deltaker,

Vi sender denne undersøkelsen til deg, ettersom du sitter med verdifull innsikt. Vedlagt ligger en link til en anonym spørreundersøkelse som er en del av vår masteroppgave. Formålet med undersøkelsen er å måle synspunkter på vanlige dilemmaer

Vi ville satt stor pris på din tid, ettersom det er en viktig del av vår masteroppgave. Spørreundersøkelsen er på engelsk og inneholder tre deler;

1. Personlig informasjon

2. Tre korte dilemmaer

3. Personlighetstest

og tar mellom 10-15min å fullføre

Link til spørreundersøkelse: _____

Ved å delta i denne spørreundersøkelsen, kan du være med i trekningen av gavekort på 500kr.

Tusen takk for din oppmerksomhet, din tid og deltakelse er av stor verdi for oss.

Med vennlig hilsen

Ihna Stallemo og Hanh Doan

Ihna.stallemo@student.bi.no / hanh.t.doan@student.bi.no

Masterstudenter i Ledelse og organisasjonspsykologi v/Handelshøyskolen BI

Appendix 2: Survey questionnaire

Part 1: control variables

Part 2: moral awareness by Rottig et al. (2011)

Part 3: short version of Rottig (1966) measure of locus of control

1. Gender

- Male
- Female

2. Age

- 20-30
- 31-40
- 41-50
- 51+

3. Educational level

- Bachelor degree
- Master degree
- PhD
- Others _____

4. Work experience (years)

- Less than 1
- 1-3
- 4-6
- 7-9
- 10+

In this part, you will be presented with three scenarios. Please choose the most appropriate option you think best reflects you feeling about the issue.

Scenario 1: A salesperson exaggerates product's value and withholds information

A young man, recently hired as a salesperson for a local retail store, has been working very hard to favourably impress his boss with his ability. At times, this young man, anxious for an order, has been a little overeager. To get the order, he exaggerates the value of the item or withholds information concerning the product he is trying to sell. No fraud or deceit is intended by his actions; he is simply overeager.

Action: *His boss, the owner of the retail store, is aware of the salesperson's actions but he has done nothing to stop such practice.*

Please indicate how you feel about the action taken by the salesperson and his boss in this scenario?

	1	2	3	4	5	6	7	
unimportant issue	<input type="radio"/>	extremely important issue						
insignificant issue	<input type="radio"/>	highly significant issue						
issue is of no concern	<input type="radio"/>	issue of considerable concern						
trivial issue	<input type="radio"/>	fundamental issue						

Scenario 2: Retailer increases price

A retail grocery chain operates several stores throughout the local area including one in the inner city (poor area). Independent studies have shown that prices do tend to be higher and there is less of a selection of products in the particular store than in the other locations.

Action: *On the day's welfare checks are received in this area of the city, the retailer increases the prices on all of its merchandise.*

Please indicate how you feel about the action taken by the retailer?

	1	2	3	4	5	6	7	
unimportant issue	<input type="radio"/>	extremely important issue						
insignificant issue	<input type="radio"/>	highly significant issue						
issue is of no concern	<input type="radio"/>	issue of considerable concern						
trivial issue	<input type="radio"/>	fundamental issue						

Scenario 3: Dealer withholds full adjustment to charge fee.

A person bought a car from a franchised dealership in the local area. Eight months after the car was purchased, he began having problems with the transmission. He took the car to the dealer, and some minor adjustments were made. During the next few months he continually had a similar problem with the transmission slipping. Each time the dealer made only minor adjustments on the car. Again, during the 13th month after the car had been bought the man returned to the dealer because the transmission still was not functioning properly. At this time, the transmission was completely overhauled.

Action: Because the warranty was only for one year (12 months from the date of the purchase), the dealer charged the full price for parts and labour.

Please indicate how you feel about the action taken by the dealer?

	1	2	3	4	5	6	7	
unimportant issue	<input type="radio"/>	extremely important issue						
insignificant issue	<input type="radio"/>	highly significant issue						
issue is of no concern	<input type="radio"/>	issue of considerable concern						
trivial issue	<input type="radio"/>	fundamental issue						

This part is a measure of personal belief: obviously there are no right or wrong answers. There are 23 items. Please select the one statement of each pair (and only one) which you more strongly believe to be the case as far as you're concerned. Be sure to select the one you actually believe to be more true rather than the one you think you should choose or the one you would like to be true. Please answer these items carefully but do not spend too much time on any one item. In some instances, you may discover that you believe both statements or neither one. In such cases, be sure to select the one you more strongly believe to be the case as far as you're concerned. Also try to respond to each item independently when making your choice; do not be influenced by your previous choices.

Q1

- a. Many of the unhappy things in people's lives are partly due to bad luck.
- b. People's misfortunes result from the mistakes they make.

Q2

- a. One of the major reasons why we have wars is because people don't take enough interest in politics.
- b. There will always be wars, no matter how hard people try to prevent them.

Q3

- a. In the long run people get the respect they deserve in this world.
- b. Unfortunately, an individual's worth often passes unrecognized no matter how hard he tries.

Q4

- a. The idea that teachers are unfair to students is nonsense.
- b. Most students don't realize the extent to which their grades are influenced by accidental happenings.

Q5

- a. Without the right breaks one cannot be an effective leader.
- b. Capable people who fail to become leaders have not taken advantage of their opportunities.

Q6

- a. No matter how hard you try some people just don't like you.
- b. People who can't get others to like them don't understand how to get along with others.

Q7

- a. I have often found that what is going to happen will happen.
- b. Trusting to fate has never turned out as well for me as making a decision to take a definite course of action.

Q8

- a. In the case of the well prepared student there is rarely if ever such a thing as an unfair test.
- b. Many times exam questions tend to be so unrelated to course work that studying is really useless.

Q9

- a. Becoming a success is a matter of hard work, luck has little or nothing to do with it.
- b. Getting a good job depends mainly on being in the right place at the right time.

Q10

- a. The average citizen can have an influence in government decisions.
- b. This world is run by the few people in power, and there is not much the little guy can do about it.

Q11

- a. When I make plans, I am almost certain that I can make them work.
- b. It is not always wise to plan too far ahead because many things turn out to be a matter of good or bad fortune anyhow.

Q12

- a. In my case getting what I want has little or nothing to do with luck.
- b. Many times we might just as well decide what to do by flipping a coin.

Q13

- a. Who gets to be the boss often depends on who was lucky enough to be in the right place first.
- b. Getting people to do the right thing depends upon ability. Luck has little or nothing to do with it.

Q14

- a. As far as world affairs are concerned, most of us are the victims of forces we can neither understand, nor control.
- b. By taking an active part in political and social affairs the people can control world events.

Q15

- a. Most people don't realize the extent to which their lives are controlled by accidental happenings.
- b. There really is no such thing as "luck."

Q16

- a. It is hard to know whether or not a person really likes you.
- b. How many friends you have depends upon how nice a person you are.

Q17

- a. In the long run the bad things that happen to us are balanced by the good ones.
- b. Most misfortunes are the result of lack of ability, ignorance, laziness, or all three.

Q18

- a. With enough effort we can wipe out political corruption.
- b. It is difficult for people to have much control over the things politicians do in office.

Q19

- a. Sometimes I can't understand how teachers arrive at the grades they give.
- b. There is a direct connection between how hard I study and the grades I get.

Q20

- a. Many times I feel that I have little influence over the things that happen to me.
- b. It is impossible for me to believe that chance or luck plays an important role in my life.

Q21

- a. People are lonely because they don't try to be friendly.
- b. There's not much use in trying too hard to please people, if they like you, they like you.

Q22

- a. What happens to me is my own doing.
- b. Sometimes I feel that I don't have enough control over the direction my life is taking.

Q23

- a. Most of the time I can't understand why politicians behave the way they do.
- b. In the long run the people are responsible for bad government on a national as well as on a local level.

If you want to participate in the lucky draw for a 500kr gift card, please fill in your email address below: _____

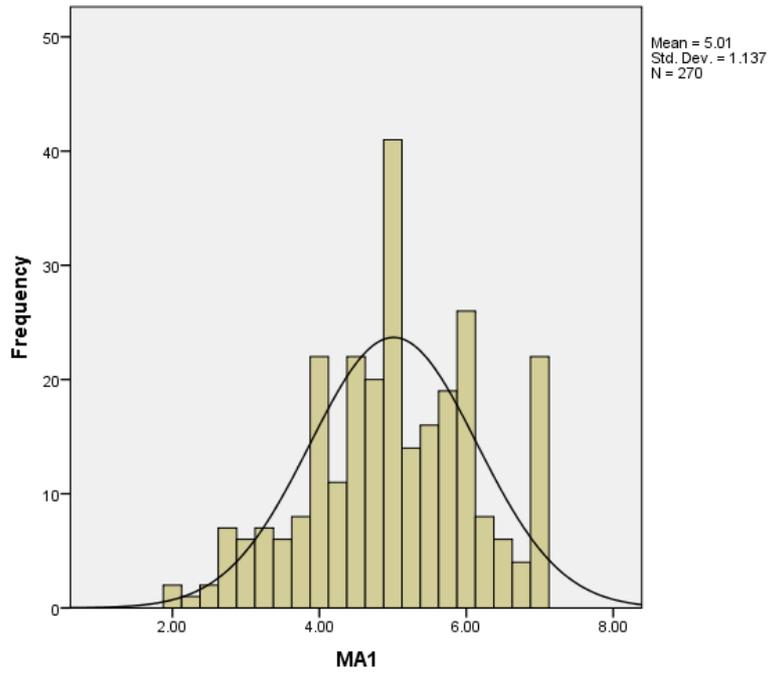
Appendix 3: Cronbach's alpha of PIE scale

Reliability Statistics

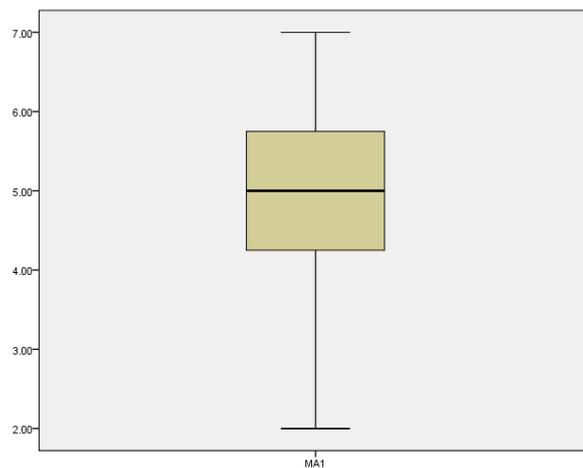
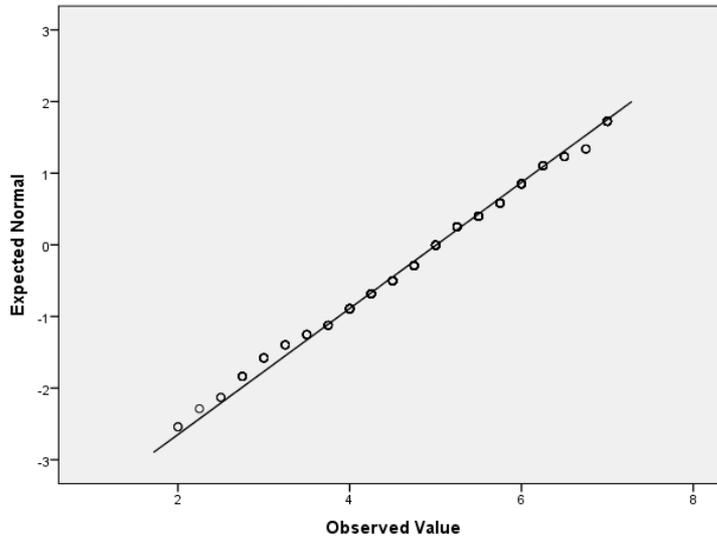
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.908	.910	4

Appendix 4: Normality test using histogram, Q-Q Plot and Boxplot

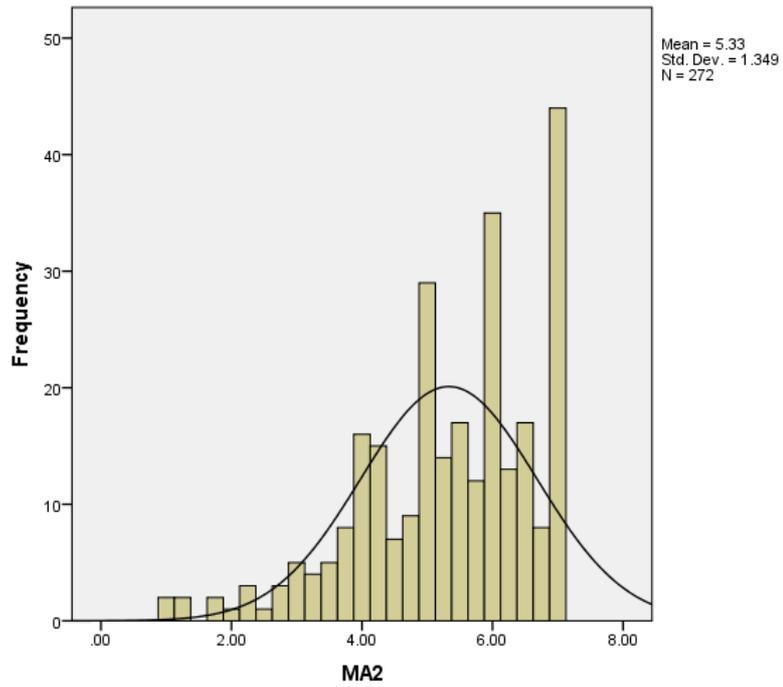
Scenario 1



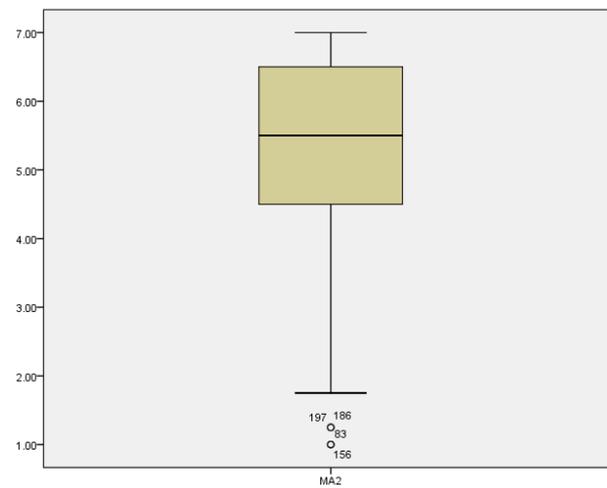
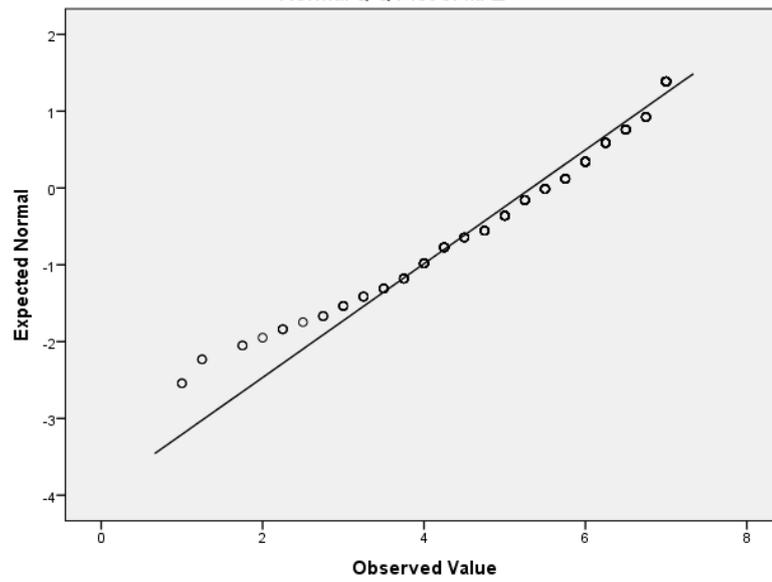
Normal Q-Q Plot of MA1



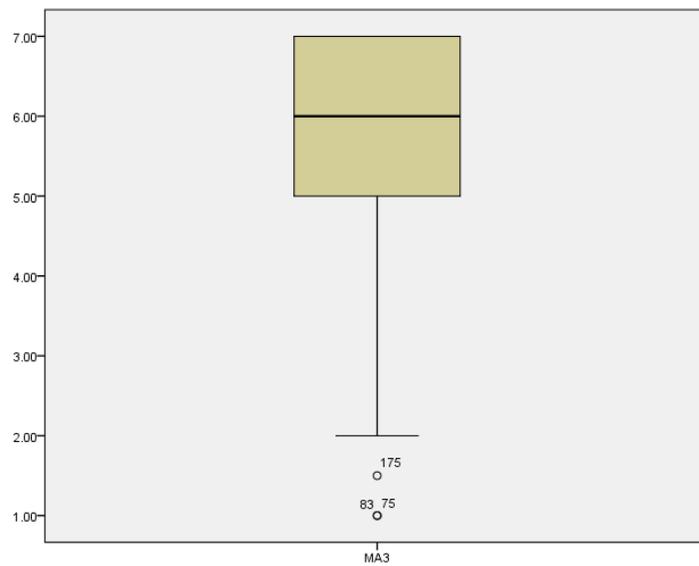
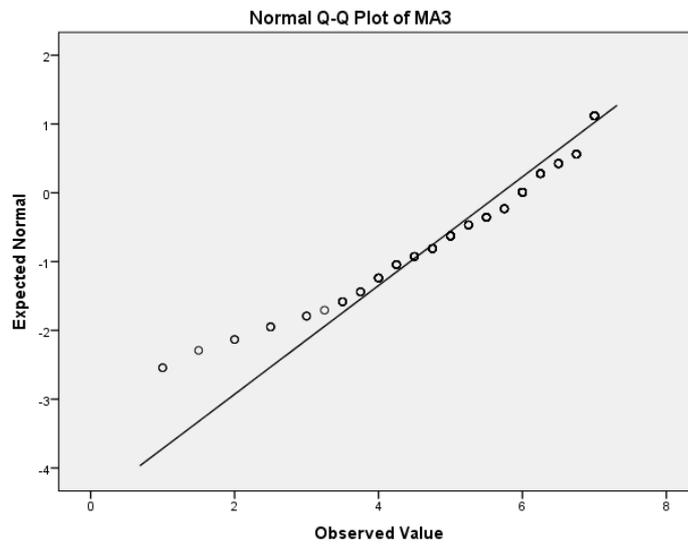
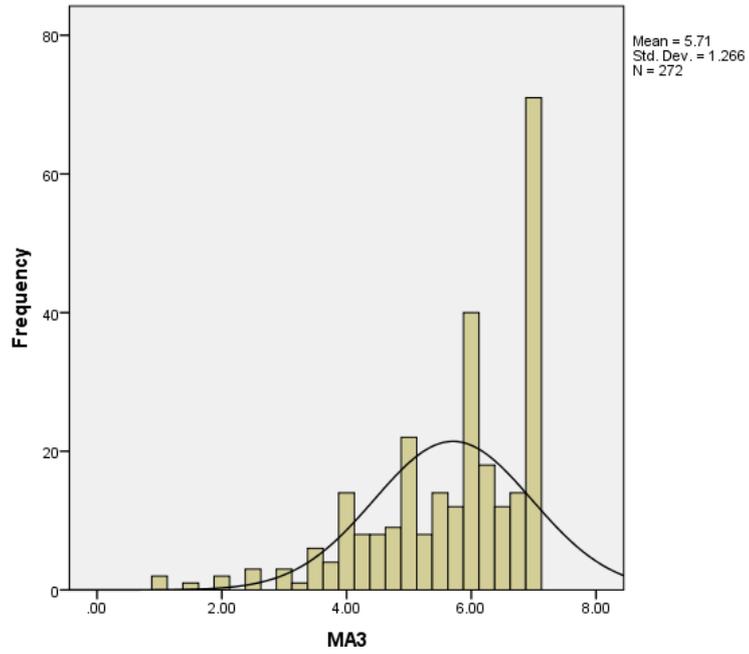
Scenario 2



Normal Q-Q Plot of MA2



Scenario 3



Appendix 5: Levene's test*Scenario 1***Test of Homogeneity of Variances**

MA1

Levine Statistic	df1	df2	Sig.
.727	1	270	.395

*Scenario 2***Test of Homogeneity of Variances**

MA2

Levene Statistic	df1	df2	Sig.
.136	1	270	.712

*Scenario 3***Test of Homogeneity of Variances**

MA3

Levene Statistic	df1	df2	Sig.
.004	1	270	.950

Appendix 6: ANOVA analysis for scenario 2 and scenario 3

Scenario 2

Descriptives

MA2

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
					0	112		
1	160	5.3438	1.34081	.10600	5.1344	5.5531	1.00	7.00
Total	272	5.3300	1.34939	.08182	5.1689	5.4910	1.00	7.00

ANOVA

MA2

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.074	1	.074	.040	.841
Within Groups	493.374	270	1.827		
Total	493.448	271			

Scenario 3

Descriptives

MA3

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
					0	112		
1	160	5.7641	1.28068	.10125	5.5641	5.9640	1.00	7.00
Total	272	5.7059	1.26563	.07674	5.5548	5.8570	1.00	7.00

ANOVA

MA3

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.315	1	1.315	.821	.366
Within Groups	432.780	270	1.603		
Total	434.096	271			

0972526

0978802

Preliminary Thesis Report

- Code of ethics and moral awareness -

A study about the relationship between code of ethics and moral awareness and the moderating impact of time and locus of control

Hand-in date:
15.01.2016

Campus:
BI Oslo

Examination code and name:
GRA 1902 Master Thesis

Programme:
M.Sc. in Leadership and Organizational Psychology

Supervisor:
Øyvind Kvalnes

Abstract

Although code of ethics has been argued to have significant effect on moral awareness and acts as a moral reminder (e.g. Pflugrath et al., 2007; Ariely, 2012), there is an ongoing debate regarding its effectiveness in promoting ethical behaviours in organizations as the research evidence is found to be mixed (Loe et al., 2000; O’Fallon & Butterfield, 2005; Craft, 2013). Consequently, we will test the effectiveness of code of ethics on moral sensitivity of individuals and we expect that code of ethics will have impact on individual moral considerations when facing dilemmas (Hypothesis 1). However, this effect is not expected to last long (Hypothesis 2). Additionally, we test the effect of locus of control on the relationship between code of ethics and moral awareness (Hypothesis 3a). We expect that code of ethics will have more effect on moral awareness when people have internal locus of control (Hypothesis 3b) and no effect for people with external locus of control (Hypothesis 3c).

These hypotheses will be tested at two time periods with two groups of participants (tested group and controlled group). The next part of our report is dedicated to the brief illustration of how we conduct empirical tests in which moral awareness will be measured using three scenarios based on Rottig et al. (2011) and locus of control will be measured by Rotter’s (1966) Internal - External LOC Scale. In the last part of this report, we present the tentative plan for completion of our thesis as well as the reference list.

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1. Introduction

Unethical behaviour on the part of organizations can cause severe damage, especially regards their reputation and in worse case scenario it can cause the organization's downfall (Barsky, 2008). A recent example of reputation damage is the Volkswagen emission scandal in 2015, where they not only gave bad reputation to themselves, but also the automotive industry (Davidson & MacLennan, 2015). To avoid pitfalls of unethical behaviour, many organizations have made code of ethics as guidelines to influence and promote ethical behaviour among the employees. Through publicising the existence of code of ethics, organizations signalize their values and that they stand by high ethical standards. Unfortunately, this strategy of using ethical codes may not be associated with the intention to promote the ethical behaviour internally (Long & Driscoll, 2007). Even though it is a widespread opinion that adopting code of ethics by organizations is beneficial, the empirical literature on the effect of ethical codes on behaviour has mixed results (McKinney, Emerson & Neubert, 2010; Craft, 2013). In this study, we will re-examine the question of the effectiveness of code of ethics in influencing employees' behaviour toward moral sensitivity over time. Further, we want to examine whether or not personality traits, such as locus of control, moderate the effect of code of ethics. Our first contribution is to the ethical decision making literature as we combine organizational and individual factor to see if this may be the reason of the inconsistency of previous findings. Secondly, our study has practical implication for organizations regarding the necessity and effectiveness of the Code of ethics.

2. Theory development

2.1. *Moral awareness*

Moral awareness is the first stage in Rest's (1986) conceptual model of ethical decision making which consists of four stages, namely moral awareness, moral judgment, moral intent and moral behaviour. According to this model, in order for a moral behaviour to occur, an individual has to first (1) recognize a moral issue and then process to (2) make a moral judgment, deciding which course of action is morally correct; (3) establish moral intent, prioritizing moral concerns and finally (4) act upon that moral concerns. It is obvious that without the first stage, other stages will not occur as noted by Hunt and Vitell (1986:761) that "if the individual

does not perceive some ethical content in a problem situation, subsequent elements of the model (developed by Rest) do not come into play". Similarly, Jones (1991) suggests that if a person fails to recognize that he or she is dealing with a moral issue, the details of the moral decision making process will become irrelevant. Also, according to Trevino, Weaver and Reynolds (2006), moral awareness is a critical stage because identifying an issue as ethically significant helps initiate ethical decision making and more likely results in ethical behaviour. There is research evidence supporting the positive relationship between moral awareness and moral judgment (Singhapakdi, Vitell & Kraft, 1996; Rottig, Koufteros & Umphress, 2011) as well as between moral judgment and moral intention (Rottig et al., 2011). Then, based on the theory of reasoned action (Fishbein & Ajzen, 1975, cited in Rottig et al., 2011) and the theory of planned behaviour (Ajzen, 1991, cited in Rottig et al., 2011), it is likely that intention will lead to actual behaviour. In addition, empirical evidence from experiment of Ariely (2012) supports that when moral awareness is stimulated, it will lead to moral intention and ethical decisions. Hence, studying what stimulates moral awareness is necessary for the thorough understanding of why someone acts either ethically or unethically. However, despite its importance, moral awareness is examined by a limited number of studies, compared to moral judgment, moral intent and moral behaviour (Rottig et al., 2011).

Moral awareness is defined by Rottig et al. (2011:167) as "the ability of an individual to recognize an ethical issue, problem or dilemma" or as "an interpretive process wherein the individual recognizes that a moral problem exists in a situation, or that a moral standard or principle is relevant to the circumstances" (Trevino et al., 2006:953). Generally, moral awareness refers to the recognition of a moral issue in a given situation or circumstance. It is argued that different people have different level of moral awareness (Rottig et al., 2011). Consequently, a moral issue which is relevant to one person may not be relevant to another person.

In business ethics literature, research evidence suggests that moral awareness is influenced by a variety of factors which can be grouped into two categories: individual factors and organizational factors (Craft, 2013). *Individual factors* include age (ethical sensitivity is found to increase with age, e.g. Chan and Leung, 2006); gender (females are said to have higher level of moral reasoning ability than males, Herington and Weaven, 2008, Eweje and Brunton, 2010);

personality (people with internal locus of control are more able to recognize ethical issues than those with external locus of control, Chan and Leung, 2006); education, work experience (level of education and work experience is suggested to be positively related to moral awareness, e.g. Eweje and Brunton, 2010) and so on, whereas *organizational factors* consist of external factors from the work environment that affect individual level of moral awareness such as (1) code of ethics (the relationship between code of ethics and moral awareness has received mixed empirical evidence, e.g. O’Leary and Stewart (2007) found that the existence of a strong code of conduct did not appear to assist internal auditors to act more ethically when faced with a dilemma, while Pflugrath et al. (2007) proved that the presence of a code of conduct can improve the quality of auditors’ judgments) and (2) organizational culture (organizational ethical culture are suggested to positively influence ethical sensitivity of employees, Zhang, Chiu & Wei, 2009). It seems that individual factors have received more attention from researchers than organizational factors which are also important antecedents of individual moral awareness.

Furthermore, question may be raised concerning why Rest’s (1986) conceptual model has been a prevalent model in ethical decision making research. In other words, the question here is why we base our study on Rest’s model. The answer may be that such model appears to be a useful framework for guiding the conceptual development and subsequent empirical studies in the field (Rottig et al., 2011). Even though there is a call for critical evaluation of Rest’s conceptual model (O’Fallon & Butterfield, 2005), we could hardly find any research examining whether these four stages actually “capture the essence of the individual ethical decision making process” or whether there is any other stage that precedes, follows or intervenes between these four stages as suggested by O’Fallon and Butterfield (2005). Therefore, Rest’s (1986) conceptual model is still a useful and reliable model in the field.

2.2. Code of ethics

It is argued that in a business setting, the boundary between right and wrong behaviours is quite ambiguous because “ethical issues are beyond the codified laws and regulations set by an organization’s legal environment” (Rottig et al., 2011:168). That is why organizations need explicit and formal guidelines such as code of ethics. Code of ethics is identified as one of organizational factors that

impact employees' ethical sensitivity or moral awareness in an organization (Loe, Ferrell & Mansfield, 2000; O'Fallon & Butterfield, 2005; Craft, 2013). According to Schwartz (2002:28), code of ethics is "a written, distinct, formal document which consists of moral standards which help guide employee or corporate behaviour". In other words, code of ethics states what behaviours are acceptable and what are not. Almost every profession needs guideline on the boundary between acceptable and unacceptable behaviours because being a professional does not automatically make a person an expert in ethics (Ladd, 1980). It is necessary to note that the boundary between right and wrong or acceptable and unacceptable behaviours is not always clear because it depends on the social norms and values which vary across culture and organizations. In this sense, code of ethics is viewed as a clear, unambiguous statement of community's expectations regarding how an individual should have acted in a given situation (McCabe, Trevino & Butterfield, 1996) or as company's philosophy toward business ethics, along with a list of expectations from employees' behaviour concerning ethical issues (Rottig et al., 2011).

According to Ladd (1980), code of ethics does have its own functions which include: (1) to inspire members to be more ethical in their conduct; (2) to alert professionals to the moral aspects of their work that they might have overlooked; (3) to defend the integrity of the professional and to protect its professional standards; (4) to provide guidance on what to do in cases of moral confusion; and (5) to alert prospective clients to what they should expect from the service of a member of the profession concerned. In this way, code of ethics is important as it limits unethical behaviours and provides guidance in ambiguous situations.

Nevertheless, code of ethics is said to have some relative downsides, such as being a tool to improve and enhance profession's image in the public eye (Ladd, 1980; McKinney et al., 2010) and to regain trust from stakeholders in what McKinney et al. (2010) calls a crisis of trust in the market place. Consequently, merely having code of ethics does not seem to make organizations more ethical in their conduct. Schwartz (2002) argues that a company can be judged to be an unethical company even when that company has created, implemented, and administered an ethical code of ethics in a thoroughly ethical manner. For example, Enron did have a written code of conduct (Verschoor, 2002 as cited in

Rottig et al., 2011), but it still failed to foster ethical behaviours of its members. Therefore, the effectiveness of code of ethics is questionable.

Despite the widespread belief that code of ethics is beneficial to organizations, empirical evidence is found to be mixed (McKinney et al., 2010). Specifically, before 1996, research found no significant impact between the existence of codes of conduct and ethical decision making or behaviour (e.g. White & Dooley, 1993; Kohut & Corriher, 1994; Simpson Banerjee & Simpson, 1994). In the period of 1996 - 2003, O'Fallon and Butterfield (2005) found that eleven studies reported a positive effect of code of ethics on ethical decision making (e.g., McDevitt & Hise, 2002), six reported mixed results and two revealed no significant findings. In the period of 2004-2011, the number of studies declined significantly. Craft (2013) reported only five studies on this topic within this period in which three studies found code of ethics positively affecting ethical decision making (e.g. McKinney et al., 2010; Pflugrath et al., 2007; Deshpande, 2009) and the other two suggested that the existence of code of ethics were not sufficient to influence ethical behaviour or ethical awareness (Craft, 2013) (e.g. O'Leary & Steward, 2007; Rottig et al., 2011). Hence, more research on this topic is needed to examine the benefits of code of ethics for business ethics.

2.3. The relationship between code of ethics and moral awareness

As mentioned previously, code of ethics is beneficial and necessary only when its presence makes individuals and organizations as a whole aware of ethical issues and act in an ethical manner accordingly. Otherwise, code of ethics is no more than a piece of decoration for an organization's image. Since ethical behaviour is the last stage in the ethical decision making process (Rest, 1986), in order for code of ethics to have impact on ethical behaviour, it needs to first stimulate individual ethical sensitivity or moral awareness of an issue. In addition, as most research findings indicate that code of ethics positively affects ethical behaviours (O'Fallon & Butterfield, 2005; Craft, 2013), code of ethics could probably have positive impact on moral awareness.

O'Leary and Steward (2007) find that internal auditors, who have to comply with strict professional regulations and "Code of Ethics for Professional Accounts", demonstrate a reasonably high sensitivity to ethical issues. Similarly, Rottig et al. (2011) suggests that code of ethics, in addition to other formal ethical infrastructure such as recurrent communication, formal surveillance and formal

sanctions, is positively associated with moral awareness. These findings are supported by experiments of Ariely (2012) in which he finds that when individuals are given reminders of ethical standards, they have a tendency to avoid cheating. Ariely (2012) argues that a small reminder of the moral standards is enough to improve moral behaviour. In this case, code of ethics acts as a reminder of moral standards which may stimulates individual moral awareness.

Overall, there is both theoretical justification and empirical evidence to support that code of ethics will have positive effect on moral awareness as it will make individuals more sensitive to moral issues when facing a dilemma. Therefore, we propose the following hypothesis:

Hypothesis 1 (H1): *Code of ethics is positively related to moral awareness*

2.4. Time effect as a moderator

Ethical codes have effects on moral awareness at the time of research. However, the question here is whether such effect will last for a longer period. As suggested by Rottig et al. (2011) and Ariely (2012), the answer is no. Rottig et al. (2011) found that code of ethics in form of words may not be sufficient to affect moral awareness and suggests that code of ethics should be accompanied by formal ethical infrastructure such as recurrent communication of ethical codes to have effect on moral awareness. This finding implies that when time passes, the effect of ethics code will decline. Also, Ariely (2012) found in his experiment that the existence of an honor code does not have a lasting effect on the “moral fiber” of students at Princeton University. Two weeks after the freshmen ethics training at Princeton University, Ariely (2012) did some experiments to see whether Princeton students would be more honest as they were still relatively fresh from their immersion in the honor code, but they did not show more honesty, compared to students from other schools who did not have ethics training. Generally, such findings suggest that the existence of ethics code does not have long lasting effect on moral awareness which means that if it is not reminded frequently, it will be forgotten and individual will not be more alert or sensitive to ethical issues. Although McCabe (1996) argues that under certain conditions, college honor codes may have enduring effects on ethics-related behavior in the workplace, the lowest level of self-reported unethical behavior is for individuals from honor code colleges and work in organization with strongly implemented codes of ethics. The problem is that if these individuals work for organizations without codes of ethics

or with codes of ethics as a piece of decoration, will they still be ethical in their conducts? The answer to this question is somewhat uncertain as there is not adequate research evidence. This leads us to the second hypothesis:

Hypothesis 2 (H2): *Code of ethics does not have long term effects on moral awareness*

2.5. Locus of control as a moderator

A personality factor that has been found to influence ethical behaviour is locus of control. Locus of control refers to an individual's perception of how much control he or she exerts over events in life (Rotter, 1966). Individuals who base their success on their own work and believe they can control their life, have an internal locus of control. In contrast, people who attribute their success or failure to outside influences have an external locus of control (Zimbardo, 1985). Locus of control is not something a person is born with, but developed over time through interaction with other people and the social environment (Treviño & Nelson, 2010). This aspect is important, since it means that it is possible to learn to change its own locus of control.

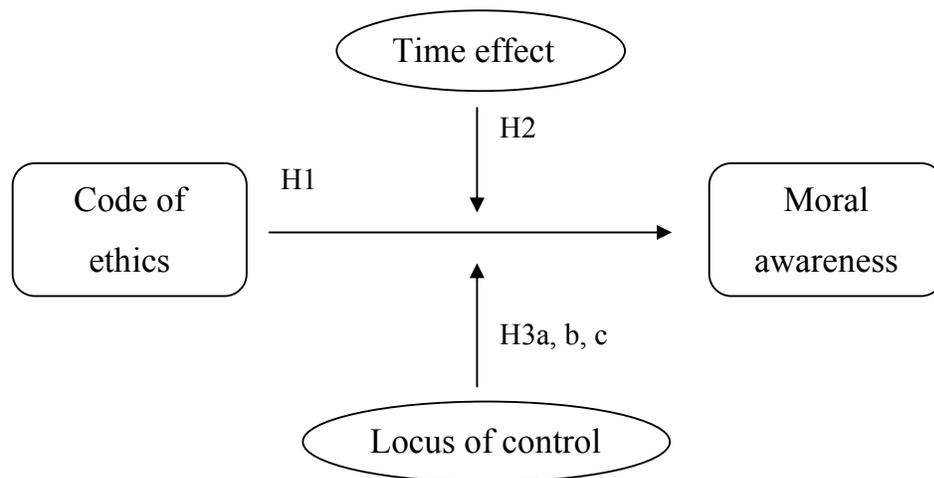
We found 19 previous studies between 1978-2012 where locus of control have been studied in relation to ethical behaviour (Craft, 2013). The findings were mixed and in 10 of the findings they found that internal locus control are positively related to ethical decision-making and external locus of control was negatively related to ethical decision-making (e.g. Street & Street, 2006; Shapeero, Koh & Killough, 2003). The other 9 studies found no significant differences (e.g. Forte, 2004). Because of the inconsistency, Street and Street (2006) called for more empirical evidence regards locus of control and ethical decision making, especially towards moral awareness and intensity. When it comes to the relation between locus of control and moral awareness, the findings are only one (e.g. Ho, 2010). However, the other studies have linked locus control to the ethical decision making and according to Rest's (1986) conceptual framework, moral awareness is the first step in the decision making process, hence it justifies our assumptions.

There is general agreement among scholars concerning the individual variables influence ethical decisions according to three major ethical decision making reviews (Loe et al., 2000; Craft, 2013; O'Fallon & Butterfield, 2005). Therefore it is concerning that these factors have not been taken into consideration

when looking at code of ethics relation towards moral awareness. We therefore question whether the inconsistency of the previous studies are due to personality factors. This leads us to the third hypothesis with underlying assumptions:

- Hypothesis 3 (H3a): *Locus of control moderates the relationship between codes of ethics and moral awareness*
- (H3b): *Individuals with internal locus of control will have higher effect from code of ethics*
- (H3c): *Individuals with external locus of control will have no effect from code of ethics*

Figure 1. Relations between constructs



3. Research method

3.1. Sample and procedures

3.1.1. Sample

Our sample includes people with work experience in Norway, especially in pharmaceutical industry. The sample size is intended to be 300 as it is a good general rule of thumb for factor analysis (Tabachnick & Fidell, 1996; Van Voorhis & Morgan, 2007). However, our survey questionnaire will be sent out to more than 300 people due to the fact that response rate is usually lower than the actual number of sent questionnaire.

3.1.2. Procedures

A Locus of Control test developed by Rotter (1966) and a survey questionnaire with three scenarios based on Rottig et al. (2011) will be sent to two groups of

participants via email. The experimental group will be required to declare that their answers will be honest and in accordance with their organization's code of ethics (if any), while the control group will be not. Subjects will be asked to indicate which item they choose for each scenarios (e.g. important issue or ethical issue) and the extent to which they agree with the item on a 7-Likert scale. After two weeks, as in experiment of Ariely (2012), both groups will receive the three scenarios again. This time, the experimental group will not be required to confirm any declaration about honesty and following of organization's code of ethics.

This study process enables us to compare the difference in moral awareness between the experimental group with honesty declaration (as a reminder of code of ethics) and the control group. Also, we can study the long term effect of Code of Ethics on moral awareness after two weeks. Furthermore, with Locus of Control test, we will be able to conclude whether personality has significant impact on the relationship between code of ethics and moral awareness.

Prior to the actual study with a larger scale, we will conduct a pilot study with smaller student sample to examine the feasibility of this approach.

3.2. Measures

3.2.1. Moral awareness

In order to measure moral awareness, we will use a pre-validated scale assessing the perceived importance of an ethical issue (PIE scale) developed by Robin, Reidenbach and Forrest (1996). Haines, Street and Haines (2008) found that PIE is a predictor of moral judgment which means that when an individual judges an ethical scenario as high in PIE scale, he or she were more likely to judge the ethical scenario as immoral. This implies involvement of ethical considerations or moral awareness. Rottig et al. (2011) suggests that this scale is appropriate to measure whether ethical considerations are embedded in a specific action.

In addition, it is argued that scenarios may reflect situations in real life context which are familiar to respondents and can be evaluated from an ethical perspective (Reidenbach & Robin, 1988).

3.2.2. Locus of control

Locus of Control will be measured using Rotter's (1966) Internal - External LOC Scale. There are total 23 questions and the participants will be forced to choose

between an internal and an external statement that most accurately reflects their views. One point is given to each external statement chosen and no point for each internal statement. Participant with the highest point of 23 is the person with highest external locus of control and vice versa, participant with 0 point is the person with highest internal locus of control. One sample item is the choice between two statements: “No matter how hard you try, some people just don’t like you” (external) and “People who can’t get others to like them don’t understand how to get along with others” (internal). Rotter’s scale is shown to be reliable (internal consistency is around 0.7, test-retest reliability ranges from 0.49 and 0.83) and have discriminant validity (Rotter, 1966).

3.2.3. Control variables

There are a number of factors are found to have effect on moral awareness in ethical decision making literature. Gender has received considerable attention, compared to other variables. A number of studies can be identified regarding the effect of age on ethical decision making. There are two main streams of research evidence, either no significant different between gender (e.g. Singhapakdi & Vitell, 1990; Valentine & Rittenburg, 2007) or females are identified as more ethical than males (e.g. Herington and Weaven, 2008; Eweje and Brunton, 2010). Based on these findings and the potential effect of gender on moral awareness, we will control for this variable and ask participants to state their gender (male or female). Age is another variable that is reported in many studies on ethical decision making. Different from gender, age receives almost consistent support that older individuals will be more ethically sensitive (e.g. Karcher, 1996; Krambia-Karpadis & Zopiatis, 2008). Therefore, age should also be controlled and we will ask participants to state their ages in one of these following groups: 20 – 30, 31 – 40, 41 – 50 and 51+. As we plan to study people with work experience, the age group below 20 will be excluded. In addition, education level and work experience tend to be positively related to moral awareness. Sparks and Hunt (1998) found that practitioners are more ethically sensitive than students. In another study, Krambia-Karpadis and Zopiatis (2008) suggest that managers are more ethical than non-managers regarding perception. Consequently, we will also control these variables by asking participants to state their education level (Bachelor, Master, PhD) and their year of work experience (less than 1, 1-3, 4-6, 7-9, 10+).

4. Tentative plan

Tasks to complete	Deadline
1. Pilot study	28 February
2. Company finding and contact	20 March
3. Data collection	Time 1: 15 April Time 2: 30 April
4. Data analysis	31 May
5. Putting results in the draft thesis	20 June
6. Finishing the draft thesis and sending to supervisor	1 July
7. Thesis finalization	20 August
8. Thesis submission	25 August

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