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Predicting unwillingness to report ethical infractions of peers: A moderated mediation approach

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Abstract In recent times, survey reports on ethical infractions at workplaces and instances of fraud have shocked and disappointed the corporate world and stakeholders alike. Several infractions however go unreported even in organisations which have ethical codes that offer a mechanism for reporting. This raises the question as to why employees pass off infractions as being 'all right' at work and how such attitudes affect their willingness to report and thereby curtail infractions. We posit organisational antecedents that may dissuade managers from reporting the ethical infractions of their peers and develop a moderated mediation model to explain which employees are more likely to refrain from reporting infractions, besides offering a possible solution to the problem.

Introduction

In recent times, many surveys have reported instances of fraud at workplaces. What is even more alarming is the finding that frauds committed by employees are more common than those by persons external to the organisation (Shaw, 2002). Such revelations have shocked and disappointed the corporate world and have had far-reaching negative consequences on investors, clients and employees. It has also underlined the need to encourage lateral reporting of infractions by employees in an attempt to curtail violations.

Psychologists suggest that people living together come to control one another through expectations of ethical behaviour (Rogers & Skinner, 1956). Ethical behaviour elicits rewards in the form of appreciation, admiration, and affection which, in turn, act as reinforcements that ensure continuance. If fairness and morality are indeed parts of human nature, then employees should also be reporting about the unethical acts (i.e., coming late, using office time for personal work, making false promises to customers, etc.) of their peers to the organisation. In Western countries, organisations expect their employees to be the silent police and encourage them to report the ethical violations of their peers (Victor, Trevino, & Shapiro, 1993). Surprisingly, however, employees in Indian organisations seem to be unwilling to report unethical behaviour of their peers to the management. The Team Lease 'Nothing ethical about ethics' (2008) survey threw up startling findings on the views of the corporate workforce on workplace ethics. Nearly 45% people

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in the corporate workforce in eight Indian cities did not object to logging of incorrect entry/exit times and 46.8% felt using the office telephone for personal long-distance calls was fine. Around 60% people lied while applying for leave, supported making tall promises to clients, or considered it okay to take printouts and photocopies at office for personal work. More than 62% admitted to doing personal work during office hours. The fallout of unethical behaviour of employees and the apathy of their peers towards reporting on infractions can critically affect a company's image, stock value, customer retention, ability to recruit and retain top workers, and ultimately, its ability to compete successfully. Consequently, the authors raise the question as to why employees who notice such infractions are unwilling to report the same in an attempt to curtail potential infractions and salvage their organisations.

One explanation for unwillingness to report infractions can be the breakdown of the underlying psychological process of an individual's moral self-regulation. Regulatory self-sanction when deactivated creates morally disengaged individuals who have a predisposition for detrimental behaviour (Bandura, Barbaranelli, Caprara, & Pastorelli, 1996) and may be more tolerant of infractions. Given this result, we propose a model of unwilling to report ethical infractions of peers to the management. Our model (see Fig. 1) proposes organisational context factors that influence unwillingness of employees to report infractions committed by their peers. We suggest that moral disengagement mediates the relation between organisational antecedents and peer reporting and that employee' cynicism and level of ethical empowerment moderate the above relationship.

Ethical decision-making process

The process of ethical decision-making (deciding on a series of actions that are legally and morally acceptable to the larger community) progresses through four stages as proposed in the model of moral action (Rest, 1986). Accordingly, individuals (i) recognise a moral issue through moral awareness that a decision or action may help or harm others, (ii) make a moral judgement about the issue in a way that moral concerns override other concerns, (iii) establish an intention to act upon the judgement, and

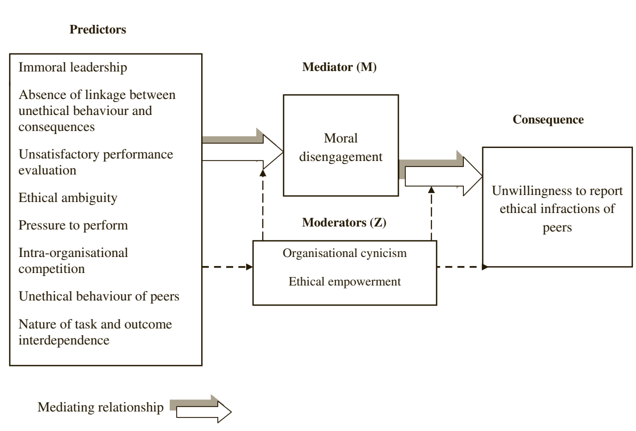

Figure 1 A moderated mediation model of peer reporting.

(iv) act out intentions. Each stage does not automatically lead to the subsequent stage. When a moral issue is recognised, a moral judgement needs to be made on it. Making a moral judgement is facilitated by an individual's cognitive moral development (Kohlberg, 1976) that operates in a range of six stages that form three levels of moral development—the pre-conventional level characterised by behaviour driven by fear and self-interest, the conventional level wherein individuals act out of a desire for interpersonal accord and harmony and finally, the post-conventional level in which universal ethical principles guide behaviour. It has subsequently been found that individuals generally perform at moral development levels lower than what they are morally capable of (Levine, 1979) with managers using lower levels of cognitive moral development in actual work environments compared to hypothetical situations (Trevino, 1986). Moral development and consequently judgement may thus be context dependent with organisational factors like the socialisation process, authority factors and group dynamics influencing what an individual regards as 'right' or 'wrong' at work and in so doing, worsen his moral intentions.

Reasons for unethical behaviour

Several studies have explained *why good people do bad things*. With respect to organisational employees, Jones (1991) defined unethical conduct as behaviour which has a harmful effect upon others and is either illegal or morally unacceptable to the larger community. Such behaviour can begin with seemingly minor infractions such as fudging time sheets in order to meet unrealistic billing budgets, taking credit for others' work, and putting self or departmental interests above the client's interests (Lagan, 2006). The ongoing debate among organisational researchers is about identifying whether unethical conduct is the result of *bad apples*—unethical behaviour attributed to personal characteristics, dispositions or due to a *bad barrel*—organisational or situational variables that trigger misconduct. It is caused by lack of wisdom (Feiner, 2004) or virtue (Giacalone, 2004) and an overemphasis on maximising shareholder value without regards for the effects of their actions on other stakeholders (Kochan, 2002). Profit-sharing programmes that intend to align management's interests with those of the owners put pressure and provide an opportunity for managers to behave unethically. Love for money has once again been seen as a reason for evil (Tang & Chiu, 2003; Vitell, Paolillo, & Singh, 2006, 2007) and unethical behaviour among university students (Tang, Chen, & Sutarso, 2007). Moral evaluation of an act can be a deterrent to unethical conduct and negative perception of the outcome may lessen chances of indulgence. Interestingly, unethical behaviour has been found to be considerably encouraged by significant others in organisations, especially superiors (Smith, Simpson, & Huang, 2007), with the social network of relationships at work (Brass, Butterfield, & Skaggs, 1998) providing constraints and opportunities that in combination with individual characteristics, issues and organisational contexts help account for unethical behaviour. If so, organisational context may account for a lowering of an individual's moral standard.