Predictors of Ethical Code Use and Ethical Tolerance in the Public Sector

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ABSTRACT

This paper reports the results of a survey of ethical attitudes, values, and propensities in public sector employees in Australia. It was expected that demographic variables, personal values, and contextual variables at the individual level, and group and organisational-level values would predict use of formal codes of ethics and ethical tolerance (tolerance of unethical behaviour). Useable data were received from 500 respondents selected at random across public sector organisations in a single Australian state. Results supported the study hypotheses, but indicated that different mechanisms underlie each of the criterion variables. Use of ethical codes was determined primarily on the basis of a perception that others use the code, while ethical tolerance was determined by personal values. At an applied level, the research highlights the need for organizations to establish a critical mass of code users, so that this operates as a normative influence on others in the organization.

Introduction

The 1980s have been characterized as the “decade of excess” (Sykes, 1994). Paradoxically, one result of this has been a resurgence of interest in ethics in both the public and private sectors, and in both academic and business research (Lozano, 1996). Recent figures reveal that some 90% of large U.S. based companies have since taken initiatives to install formal codes of ethics, of which a third were established between 1985 and 1990 (Murphy, 1995). In Australia, a similar pattern of accountability has emerged. Since the stock market crash of 1987, there has been a Royal Commission in each Australian state, and an Australian survey over a range of professions and industries found that almost three quarters had a code of ethics in place (Milton-Smith, 1995).

Recent calls for business accountability have prompted an increased emphasis on business ethics internationally. Indeed, research by Carlson and Kacmar (1997) and Zahra and LaTour (1987) indicates that there is a sound basis for relieving that ethics is of critical importance to the functioning of a company, beyond a mere reaction to past corruption. In this respect, Zahra and LaTour found that corporate social responsibility is associated with organizational effectiveness, while the ethical environment of an organization is linked to a stronger culture, more commitment, and lower turnover among employees (Carlson and Kacmar, 1997).

The importance of ethical values for the Public Sector, over and above private corporations and professions, is identified as “the position of trust, power and privilege which public servants hold, and the resulting obligation not to breach that trust and not to misuse their power or privilege” (MAB and MIAC, 1996, p. 2). In Australia, the resurgence of interest in Public Sector ethics has been attributed to: emerging evidence of unethical conduct, the questioning of the distinction between policy making and administration, and the increasing acceptance that non-elected officials exercise power and that it is difficult for the public to ascertain whether that power is being properly used (EARC, 1992).

The use of formal codes of conduct

The majority of research to date has relied on ethical values or behavioral intentions as the criterion variable, and has dealt with individual ethics, resting upon the premise that the ethics of individuals aggregate to influence the ethics of the organization (Carlson and Kacmar, 1997). In this study we describe
this variable as ethical tolerance. The present study follows this pattern, but also examines the less well established criterion, use of a firm’s formal code of conduct by individuals, as a dependent variable. Further, this study includes variables at different levels of organizational analysis.

Milton-Smith (1995) has shown that organizations attempt to meet ethical concerns through introduction of formal codes. In this respect, formal codes of ethics remain the most obvious, and the most applied way for organizations to attempt to encourage ethical behavior. Despite this, and while our knowledge of moral reasoning has increased with the past thirty years’ of ethics research, such codes remain largely unaddressed in the ethics literature. One aim of the present study is to extend beyond theories of moral reasoning and values, and to address directly the role of work place ethical norms (Delaney and Stockwell, 1992).

The use of formal codes of conduct is discussed in the literature as a potential predictor of ethical behavior (Akaah and Riordan, 1989; Hunt, Chonko and Wilcox, 1984). Researchers have been unable to conclude, however, whether the use of a code necessarily predicts ethical intentions and behaviors. Akaah and Riordan (1989) found that the existence of a formal code of ethics did not significantly relate to people’s ethical judgments. Similarly, Hunt et al. (1984) found that the existence of a corporate code of ethics made no difference in respondents’ perceptions of ethical problems in their organizations. The problem is that these studies have failed to clarify the degree to which such findings arise from factors other than code salience. For example, in cross-sectional research, variation in knowledge and understanding of the content of the relevant codes can mask the effect of the codes on decision making. Variation in the calibre of the corporate codes being sampled can have a similar effect (Morris, Marks, Allen and Peery, 1996). Finally, informal codes and norms can also function alongside formal codes to influence ethical decision making (Hunt and Vitell, 1993; Zey-Ferrell, Weaver and Ferrell, 1979).

There is also another, more positive, aspect of ethical code usage. This is the extent to which codes indicate an organization’s commitment to ethics. Writers such as Kitson (1996), and Soutar, McNeil and Molster (1995) have observed that, while the existence of a code may not necessarily translate into behavior, codes at least indicate this sort of commitment. For example, Hunt and his colleagues (1984), in a study of marketing researchers, found that companies which reported few ethical problems were those where formal norms were upheld. Further, informal norms which deviated from standards of professional conduct were not tolerated by top management. Morris and his group (1996) also discuss the role of formal codes of conduct as an indicator of organizational commitment to ethics.

Finally, there is a small body of research which has examined the determinants of formal code use. Pearson, Crosbey, and Shim (1997) studied whether information systems professionals adhere to organization or professional code criteria. They found that adherence was stronger for codes relevant to specific organization-focused criteria, rather than the more cosmopolitan, career-focused guidelines. The relative importance of criteria differed by age, gender, level of importance, whether individuals perceived a formal code of ethics as necessary, and whether they belonged to an organization which considered itself a leader in its industry.

In summary, ethical code usage represents a potentially important, but little investigated aspect of organizational behavior. In the following section, the relationship between use of codes and ethical behavior and attitudes is discussed further.

**Relationship between codes and ethical behavior**

Kitson (1996) has pointed out that there is ambiguity surrounding the relationship between code use (i.e. as measured by the existence of a code of ethics) and ethical behavior. This ambiguity may, however, derive in part from the measure used to ascertain the existence of a formal code, rather than whether such a code is utilized in the organization. The present study seeks to rectify this by going beyond the mere existence of a formal code to a measure of organizational code use which is based on clear and specific guidelines. In an organization where the formal code of conduct has been carefully designed to reflect and to clearly outline desired ethical behavior in a given work context, it follows that adherence to such a code would at least be
likely to create an environment for ethical behavior (at least within the confines established by the code; see Lozano, 1996).

It is notable that much of the previous research is predicated on the idea that ethical behavior is determined by personal values and moral reasoning. Thus, each individual’s struggle between deontological and teleological concerns is an indicator of more durable, generalizable moral philosophies (DeConnick and Lewis, 1997). On the other hand, we argue that adherence to a given code of conduct need not generalize to human moral reasoning, but does have the potential to indicate ethical behavior within the limits that the code sets. Such a focus also reflects a theme apparent in recent business ethics research that there is a need to turn from personal responsibility to corporate responsibility (see Lozano, 1996).

Another main aim of the present study, therefore, is to compare the pattern of relationships obtained when predicting the use of a specific formal code of conduct with the more traditional, generalizable, ethical behavior which we term ethical tolerance. The specific hypotheses in the forthcoming sections outline the similarities and differences we expected to be evident between the two criteria. The variables included in the present study were similar to those used in past research to predict ethical behavior from the perspective of moral reasoning. Individual, group, organizational, and contextual variables were included to test their relative importance. The following provides a brief outline of the predictive role of each group of variables.

**Individual level**

Individual-level variables include both demographic variables, (e.g., gender, managerial level and job tenure) and personal ethical values.

Gender is a demographic variable which has received considerable attention (see Mason and Mudrack, 1996). There are, however, two competing theoretical positions in this regard: gender socialization theory and occupational socialization theory. Gender socialization theory posits that men and women are socialized to think and behave in different ways, and that this leads to differences in ethical values which persist between the genders beyond work experiences. The proponents of occupational socialization theory argue, on the other hand, that similar employment experiences create similarities in ethical values in men and women.

Empirical studies have yielded conflicting results, supporting one or other of these theories, and the relationship between gender and ethics is still unclear. While researchers such as Ruegger and King (1992), Khazanchi (1995), and Schminke and Ambrose (1997) have reported gender differences in ethical values, others (e.g. Hodgkinson, 1971; Kidwell, Stevens and Bethke, 1987) have found similarities between males and female ethical propensities. Still other researchers have reported mixed results. For example, Callan (1992) found gender differences correlated with one of the six ethical dimensions used and no significant differences on the other five (see also McNichols and Zimmerer, 1985; Stead, Worrell, Spalding and Stead, 1987). In general, empirical evidence has shown that the relationship between gender and ethics is slight at best (see McCuddy and Peery, 1996).

Another individual variable which has received attention is managerial level. Despite occasional anomalous findings (e.g. Akaah, 1996), managerial level has generally been found to be a robust predictor in ethics research, with those at higher levels reporting more ethical behavior and values. Callan (1992) found that managerial level can predict perceptions of ethical problems (see also Hunt et al., 1984), and Akaah and Riordan (1989) found it can predict ethical judgments.

A third variable of interest is job tenure. Kelly, Ferrell and Skinner (1990) found that older professionals, and those holding their jobs for ten years or longer tended to give themselves higher ethical ratings. Morris and his colleagues (1996) outline alternative explanations for this finding (along with similar results they found with respect to age). It is possible that the deeper and broader exposure to professional practice that comes with job experience induces a belief in returning, when in doubt, to the basics of one’s profession, such as those articulated in codes of ethics. Thus, according to Morris et al. (1996), older more experienced professionals may tend to think and behave according to formal codes, while younger, less experienced professionals adhere more to the informal norms of the profession.
The present study includes gender, managerial level and job tenure as predictor variables. A fourth variable, role responsibility, is also included in this set of individual variables. Role responsibility reflects characteristics of a person’s job which should be related to managerial level. For instance, Callan (1992) found that indices of authority and power were negatively correlated with cronymism, but unrelated to other ethical criteria.

In summary, research has indicated, albeit sometimes equivocally, that gender, managerial level, job tenure, and role responsibility are predictors of ethical behavior. In the context of the present study, these findings lead to two hypotheses:

H1: Individual variables (gender, managerial level, job tenure, role responsibility) will be significant predictors of the use of formal codes of conduct.

H2: Individual variables (gender, managerial level, job tenure, role responsibility) will be significant predictors of ethical tolerance.

Researchers have looked at individual-level variables apart from demographic information. For example, McKenna (1996) posed that ethical behaviors may vary because of differing levels of awareness of ethics. A manager’s actions may lead to consequences which are widely considered as amoral, not because of wrongdoing but because of this absence of ethical awareness. Along similar lines, Morris and colleagues (1996) concluded that it may be that the more knowledge people have about ethical standards, the more their behavior is affected according to perceived moral standards.

The role of personal values is emphasized also in the conceptual framework of Ferrell and Gresham (1985), as well as Hunt and Vitell (1993). In these theories, strong moral values are proposed to instil more ethical functioning; values that weigh personal advancement may do the opposite. Personal values, ethical principles and ethical norms are a part of an individual’s ethical philosophy (Stead, Worrell and Stead, 1990; Windsor and Ashkanasy, 1995) and thus influence individual behavioral decisions (Hogan, 1973).

In this present study we examine personal values towards ethics in terms of leniency (the degree to which things are not perceived to be either right or wrong, but can be viewed with some leniency) and triviality (the perception that some wrongdoings are not important, and are even trivial in some situations). These variables capture ideas of idealism and relativism, two dimensions by which Forsyth (1980) proposes individuals will differ in their behavioral manifestation of ethical philosophies. Idealism is the degree to which a person believes that ethical behavior always results in good outcomes (akin to low leniency). Relativism is the degree to which a person believes that ethics are situational (that is, triviality, see Stead et al., 1990). From this research, another two hypotheses are proposed.

H3: Personal values, in the form of perceived leniency and triviality accorded to some unethical behavior, will be significant predictors of the use of formal codes of conduct.

H4: Personal values, in the form of perceived leniency and triviality accorded to some unethical behavior, will be significant predictors of ethical tolerance.

It is further hypothesized that,

H5: Personal values will predict ethical tolerance more strongly than they will predict the use of formal codes of ethics.

Context

Other variables to consider are those that focus on the contexts of ethical and unethical behaviour. As Kahn (1990) suggests, ethics research needs to consider not only the person’s internal awareness of ethical principles, but also the organisational contexts of thought and work demands. That is, there is a need to assess the situational constraints which affect the way an individual’s demographic history and personal
values predict ethical behavior.

In the present study, the first context considered is conflict. That is the level of conflict between an individual’s personal ethical beliefs and the ethical values demanded for successful work. The existence of conflict between personal ethics and perceived company interests is likely to be a source of ethical dilemma or ethical ambivalence (Jansen and Von Glinow, 1985). In the face of competing demands between these obligations, ethics may be considered as the individual’s attempt to “do the right thing” (Froelich and Kottke, 1991). Based on the findings of Froelich et al. (1991) we hypothesize that the level of conflict between personal values and organisational demands will predict ethical predilections as measured by either the use of formal codes or ethical tolerance.

In addition to conflict, two other contextual variables shall be considered. These measures are the perceived relevance of a formal code in general for an individual’s work, as well as the individual’s perceived need for the formal code of conduct. If a code is deemed irrelevant or not necessary for one’s work, use of such formal codes will not be an accurate measure of ethical behavior for that sphere of work. Thus, the pattern of relationships between individual contextual variables and use of formal codes will be different to the pattern between contextual variables and the non-workplace specific measure of ethical tolerance. We propose nonetheless that, of the three contextual variables, only conflict will be a significant predictor of ethical tolerance. This proposition is based on the notion that, although an organisation may establish a context for ethical and unethical behaviour, the existence of conflict in that context will lead to a mitigation of other factors such as those related to formal codes. This leads to two hypotheses:

H6: Contextual variables (perceived conflict between personal values and work demands, perceived relevance of a formal code of conduct, and perceived need for a formal code of conduct) will be significant predictors of the use of formal codes of ethics.

H7: Of the contextual variables (perceived conflict between personal values and work demands, perceived relevance of a formal code of conduct, and perceived need for a formal code of conduct), only conflict will be significantly related to ethical tolerance.

Group level

The work group represents another level of analysis which needs to be considered in business ethics research. Models of ethical behavior have incorporated group variables through the proposition that, if interaction with peers is more significant that interaction with management, then such a peer group will have more influence on both an individual’s ethical decision making (Ferrell and Gresham, 1985; Ferrell, Gresham and Fraedrich, 1989), and the use of informal norms for use of codes among peers (see Hunt and Vitell, 1986; Zey-Ferrell et al., 1979). Thus, we hypothesize that:

H8: The extent to which an individual’s work group uses the code of conduct will predict the use of formal codes by that individual.

H9: The extent to which an individual’s work group uses the code of conduct will predict the ethical tolerance of that individual.

Organizational level

At the organizational level, two schools of thought exist about the potential determinants of ethical behavior. The first is the role of general cultural norms, the second is the role of “ethical climate” (Victor and Cullen, 1990).

First, shared cultural norms and values in an organization appear to predict ethical behavior (Ferrell et al., 1989). Jansen and Von Glinow (1985) argue that there is a need for the organizational culture practised in an organization to match the values espoused by organizational members. It is especially important that the reward system of the organization does not conflict with espoused values in the formal code of conduct or informal norms or, indeed, with personal ethical values and judgments of the organization’s stakeholders
(ethical ambivalence). In this respect, researchers such as Hegarty and Sims (1978), Stead et al. (1990), and Trevino (1986) have stressed the effect of reinforcement and reward structures on the ethical behavior of employees. Chen, Sawyers, and Williams (1997) argue further that it is the ethical attributes of a corporate culture that help employees to see ethical dilemmas and to maintain an ethical point of view, rather than the individual attributes of the employees.

The second perspective is based on the notion of ethical climate, and has received much attention since the development of a measure by Victor and Cullen (1990). Organizational ethical climate is a subset of organizational climate, embodying normative values and beliefs involving moral rightness and wrongness shared by the employees of the organization (Weber, 1995). The ethical climate survey distinguishes different climates on two dimensions. The first dimension differentiates maximization of one’s own self-interests, maximizing joint interest, or adherence to universal principles (Victor and Cullen, 1990). The second dimension represents level of ethical concern: individual, local or cosmopolitan. Several recent business ethics studies have utilized this measure and validated the concepts of ethical climates and sub-climates (e.g. Cullen, Victor and Bronson, 1993; Deshpande, 1996; Weber, 1995).

The present study is not a study of ethical climate per se, and does not utilize the ethical climate survey. Elements of the ethicality of the organization and its reward systems are included as a measure, however. As such, we expected to find that:

H10: The ethicality of the organization’s reward system will be a significant predictor of use of formal code of conduct.

H11: The ethicality of the organization’s reward system will be significant a predictor of ethical tolerance.

In summary, demographics, personal values, context, group and organization variables, which have been found in the literature to be predictive of ethical behavior, are used in the present study to test two operationalizations of ethical behavior propensity: use of formal code and ethical tolerance.

Method

Sample

The data for this analysis were collected from a large-scale ethics survey carried out in public sector organizations in one Australian state. A total of 1200 questionnaires were mailed to public sector employees selected on a fully random basis in organisations throughout the public sector. Five hundred and twelve questionnaires were returned, representing a return rate of just under 43%. Twelve of the questionnaires were unusable, and were discarded. The demographic composition of the sample is given in Table I.

Instrument

The questionnaire used in the present study was developed jointly by the participating public sector organizations and the authors. The scales for the questionnaires were the result of focus groups and prior research in the participating organizations. The adopted questionnaire consisted six sections, comprising 56 questions. Many of the questions included multiple items, however, so that the total number of items was 83. Each item was responded to on a 5-point Likert-type scale, where 1 = “Strongly disagree” and 5 = “Strongly agree”.
An principal axis exploratory factor analysis (using Varimax rotation) was used to determine the factor structure among the items representing the individual and organizational-level variables. Factors were selected on the basis of a screen criterion and interpretability. Resulting from this analysis, 29 items with factor loadings of 0.3 and above (Tabachnick and Fidell, 1996) were retained in a 7-factor structure, which explained 52% of the total variance. None of the retained items cross-loaded on other factors. Eigen values ranged from 6.37 to 1.74. Factor loadings were in a range from 0.30 to 0.61. Alpha reliability coefficients for the seven scales, however, were moderate, ranging from 0.60 to 0.69. In this respect, Nunnally (1978) has noted that an alpha of 0.5 or 0.6 is acceptable at the early stages of research, especially when the number of scale items is small. Further, items were deliberately selected in the present study to provide an appropriate balance between homogeneity and variability within scales (Boyle, 1991).

Demographic measures. Three demographic variables and one job characteristic were incorporated into the study: gender, years in the organization, managerial level, and role responsibility. Women were coded as 1 and men were coded as 2. Years in the organization were categorized into three groups: 0–5 years, 6–10 years and 11+ years. Managerial level was a dichotomous variable, distinguishing between middle to top management (coded as 2) and non-managerial positions, such as administrative, clerical, professional, technical roles (coded as 1). Role responsibility was taken as the mean value of seven items which addressed specific areas of responsibility held by the employee. For example, granting a licence, payment or benefit. High scores indicated higher realms of responsibility.

Personal ethical values and attitudes. The exploratory factor analysis of the original nine items indicated two ethical value factors, labeled triviality (six items, alpha = 0.69) and leniency (three items, alpha = 0.65). An example of a triviality item is “Avoiding procedures is sometimes justifiable to get past bureaucratic red tape”. High scores on this factor indicated that the respondent perceived that some wrongdoing is trivial and justifiable. An example of a lenience item is “if something is done for the right reasons, it cannot be called wrongdoing”. High scores for leniency indicated that the respondent believed that only illegal, repeatable or actions done for the wrong reasons are of ethical concern.

Context variables. Context variables were included in the study to take into account the perceived relevancy and need for adherence to ethics given the work context of respondents. The factor analysis of the original 10 items revealed that there were three dimensions within this category: conflict, perceived relevance of the code, and perceived need for a formal code. Three items, for example: “It is difficult to achieve fairness in all official dealings with the public and other departmental employees”, were labelled

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>N</th>
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<tbody>
<tr>
<td>1. Role responsibility</td>
<td>2.55</td>
<td>1.02</td>
<td>476</td>
</tr>
<tr>
<td>2. Job tenure</td>
<td>2.31</td>
<td>0.84</td>
<td>458</td>
</tr>
<tr>
<td>3. Gender</td>
<td>1.57</td>
<td>0.50</td>
<td>490</td>
</tr>
<tr>
<td>4. Level</td>
<td>1.43</td>
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<td>496</td>
</tr>
<tr>
<td>5. Lenient</td>
<td>1.67</td>
<td>0.78</td>
<td>493</td>
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<td>6. Trivial</td>
<td>1.95</td>
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<td>490</td>
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<td>7. Perceived need</td>
<td>2.65</td>
<td>0.58</td>
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<td>8. Perceived relevance</td>
<td>3.10</td>
<td>1.05</td>
<td>494</td>
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<td>9. Conflict</td>
<td>2.50</td>
<td>0.80</td>
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<td>10. Use of obligation – Diligence</td>
<td>4.23</td>
<td>0.81</td>
<td>498</td>
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<td>11. Use of obligation – economy and efficiency</td>
<td>3.96</td>
<td>1.04</td>
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<td>12. Use of obligation – integrity</td>
<td>3.91</td>
<td>0.88</td>
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<td>13. Use of obligation – respect for law</td>
<td>4.19</td>
<td>0.74</td>
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<td>14. Use of obligation – respect for persons</td>
<td>4.19</td>
<td>0.82</td>
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<td>15. Others’ use of code</td>
<td>2.74</td>
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<td>480</td>
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<td>16. Organization’s ethics</td>
<td>3.10</td>
<td>0.92</td>
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<tr>
<td>17. Use of code</td>
<td>3.18</td>
<td>1.36</td>
<td>488</td>
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<tr>
<td>18. Ethical tolerance</td>
<td>3.35</td>
<td>0.45</td>
<td>480</td>
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Conflict (alpha = 0.60). Two items were retained in the Relevance scale (alpha = 0.61). An example is: “Ethical issues often arise as a significant consideration in my job”. Six items were retained in the Need scale (alpha = 0.69); for example: “If a Code of Conduct were available, I believe that I would not need to consult it” (reverse coded).

**Group-level variables.** Group-level variables tapped the normative practices in each individual’s work group or department with regard to the formal ethical code in place in the organization under study. These variables were not included in the exploratory factor analysis because they are qualitatively different from the others. The first group-level measure consisted of only one item, asking whether “other people in my work area often use this Code of Conduct”. The other measures addressed the account taken in practice by work group members of each of five obligations included in the formal code. The measures were represented in the questionnaire by the four specific elements of each ethical obligation included in the code. The final scores on each obligation were the mean responses on the four elements. The five obligations comprise: (1) diligence, (2) economy/efficiency, (3) integrity, (4) respect for law, and (5) respect for persons.

**Organizational practices.** The organizational variable included in the study, organizational ethical practices, was confirmed by the exploratory factor analysis. It comprised of five items, coded such that high scores represent ethical practices (alpha = 0.60). These items addressed issues such as sexual discrimination (unethical behavior) and achievement by merit (ethical behavior). An example is “The reward system in the public sector does not encourage ethical behavior” (reverse coded).

Dependent variables: These comprised two measures: (1) use of formal code of conduct and (2) ethical tolerance. Use of code was measured by the single item “I use the Code of Conduct written for my employing authority”. High scores on this item indicate a propensity to use the code of ethics. Ethical tolerance was confirmed from the exploratory factor analysis, and included six “scenario” questions, where respondents were asked to rate their agreement that the behavior presented in each scenario was ethical. An example is: “A public sector employee gives personal information about the agency’s clients to her spouse who works in an insurance company”. The final measure of ethical tolerance was the mean response on these items. High scores on this scale indicate a propensity to tolerate unethical practices. Alpha was 0.68.

Twelve hundred questionnaires were mailed to a random selection of employees in the public sector in one State of Australia. The organizations included public service, local government, government instrumentalities, and educational institutions. Respondents were told that the questionnaire had been authorized by their chief executive, and would be completely confidential. They were told further that “The survey is not asking you about your personal moral standards. It is concerned with the relationship between the rules, practices, and traditions which apply in your workplace.” A postage paid return envelope was provided with each questionnaire.

**Results**

Data analysis in this study was performed using SPSS computer package. Mean responses and standard deviations for each measure involved in the study are presented in Table I. Intercorrelations between the variables are detailed in Table II.

The results shown in Table I indicate that items were answered by between 458 and 499 respondents. Mean values (on a 1–5 scale) were in the range 1.35 (Ethical tolerance) to 4.23 (Diligence obligation). Mean scores are within the expected ranges for each variable, with low scores on “unethical” variables such as leniency, triviality, and tolerance; and high scores on ethical obligations. Scores on perceived need, relevance, and conflict were mid-range. Interestingly, rating of the organization’s ethics was equivocal (Mean = 3.10), suggesting that respondents perceived themselves as behaving more ethically than mandated by organizational reward systems. Yet mean scores on others’ use of formal codes (2.74) and respondents’ own use of the code (3.18) were mediocre, suggesting that code use is not necessary for a perception of ethicality (eg. use of industry rather than organization code).
All measures were checked for normality using the skew parameter. The five measures relating to work group members’ specific ethic obligations were negatively skewed. Even a moderate transformation technique (e.g. square-root) rendered these measures positively skewed, however, so the untransformed scores were retained. Multivariate outliers, when removed from the analyses, did not affect the results and so were retained.

The primary method of analysis used in this study was hierarchical regression. The order of entry of variables progressed from individual variables (demographics, values) to organization level variables. Individual demographic variables were entered first and personal values second, to control for individual-level differences. Context variables were entered next, again because these variables need to be controlled for before group and organization effects can be explained. The organizational-level variable was entered last. This procedure was on the basis of evidence (Hegarty and Sims, 1978; Stead et al., 1987; Trevino, 1986) that organizational-level variables are likely to influence ethical decisions made by employees, over and above the effect of individual or group-level variables.

Results of the hierarchical regressions are presented in Table III. The beta weights listed in the table are from the final model, when all variables are entered.

**Hypothesis tests**

*Use of formal code of ethics.* Hypotheses 1, 3, 6, 8, and 10 relate to respondents’ use of the code of ethics. It was expected, respectively, that individual demographic variables, personal values, contextual variables, and group- and organizational-level variables predict use of the code. From Table II, it can be seen that use of codes was significantly related to all independent variables with the exception of gender, leniency, and conflict.

Results of the hierarchical regressions shown in Table III, however, give a better idea of the relative contribution of each variable. In particular, this table shows the contribution of each group of variables when the previously entered variables are taken into account. These results indicate support for Hypotheses 1, 3, 6, and 8, but not Hypothesis 10. Thus, each set of predictors added significant variance to the equation, except the organization’s ethics. It appears that, in the present study, that the organizational-level variable was subsumed in the individual and group-level effects. The hierarchical regression also shows the specific contribution of each variable when the others are included. In this respect, managerial level, perceived need for a code, economy, and others’ use of the code were the significant predictors at each of the steps in the model. An interesting result was that perceived need for a code was negatively related to use of the code. The higher the perceived need for a code the lower the reported use of the code. This result, however, is explainable in terms of respondents’ perception of the relevance of the code.

### Table II

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<tr>
<th>Variable</th>
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*p < 0.05, **p < 0.01,
perceived need for code was negatively related to perceived relevance and positively related to code use. Thus, the less relevant a code, the greater the perceived need for a code (improved), and the less use of the existing code.

**Ethical tolerance.** Hypotheses 2, 4, 9, and 11 relate to respondents’ ethical tolerance. It was expected, respectively, that individual demographic variables, personal values, contextual variables, and group- and organizational-level variables predict ethical tolerance. From Table II, it can be seen that the pattern of supporting relationships is not as clear as for use of codes. Significantly related variables were role, tenure, and level (Hypothesis 2); perceptions of lenience and triviality (Hypothesis 4); and conflict and ethical obligations (Hypothesis 7). Support for Hypotheses 11 was not forthcoming in these results. Finally, it is noted that there was a small but significant correlation between use of formal codes and ethical tolerance, as would be expected.

Results of the hierarchical regression (Table III) show that demographics and personal values were significant predictors supporting Hypotheses 2 and 4. Variables entered in Step 4 also produced a small but significant increase in R squared, although none of the beta-weights in this group were significant. This finding thus provides only limited support for Hypothesis 9. Within these regressions, the values of leniency and triviality and perception of conflict were the significant predictors. As for use of formal code, the organization’s ethics was not a significant predictor. Thus Hypothesis 11 was not supported.

Hypothesis 7, that conflict would be the only variable out of the context values to be related to ethical tolerance, was supported. From Table II, conflict can be seen to be the only contextual variable significantly related to ethical tolerance. Conflict also had a significant beta-weight and a higher beta weight in the analysis predicting ethical tolerance than the analysis predicting use of formal code. This result is notwithstanding the finding that the introduction of context variables in Step 3 of the hierarchical regression did not add significantly to the equation. Thus, while conflict was the only contributing contextual variable, our results suggest that this effect is subordinate to the effects of demographic variables and personal values.

Hypothesis 5, that personal values will be stronger predictors of ethical tolerance than use of formal codes, was supported in terms of both the zero-order correlations and the hierarchical regression analysis.

Overall, the results provide support for the hypothesized effects with the exception of the role of organizational-level ethical values. It appears that, within the context of the present study, individual and group-level variables are the main predictors of use of formal codes and ethical tolerance. For both analyses, however, it is clear that there are dominant predictors: others’ use of code for the prediction of use of formal code (accounting for a unique variance of 34%) and the two personal values measures, lenience and triviality, for the prediction of ethical tolerance (together accounting for 9% of unique variance).

**Discussion**

The aim of the present study was to examine potential predictors of use of a formal code of ethics in public sector organizations and to compare the pattern of relationships on this variable with ethical tolerance, the more established criterion. Results revealed that demographics, personal values, and contextual and group-level variables were predictors of both dependent variables, but that the pattern of prediction varied for each. Results also revealed that the organization’s reward structure relating to ethics was not a significant predictor for either use of code or ethical tolerance, especially when individual and group-level variables are accounted for.

Use of formal codes was chosen as a dependent variable because codes are now widespread (Milton-Smith, 1995), and it is widely perceived that codes of ethics are necessary precursors for ethical behavior in organizations. In the present study, we contrast predictors of the use of codes with a measure of ethical tolerance. The emphasis of this discussion therefore is on the comparative use of codes as a dependent variable alongside the more established criterion: ethical tolerance. The practical implications of the
findings will then be canvassed. The paper concludes with a discussion of some of the methodological limitations of the study.

The outstanding finding of the present study is that different mechanisms operate in the prediction of the two measures of ethical propensity. The organizations which were included in the present study shared an established and well specified formal code of ethics. Our results show, however, that the prime predictor of use of this code was the extent to which others in the individual’s work group used the code. On the other hand, ethical tolerance was predominantly predicted by the personal values which individuals hold regarding the leniency with which they view unethical behavior, and the extent to which they regard such behaviors as trivial. These findings are consistent with earlier studies (e.g. Kitson, 1996; Soutar et al., 1995) which have shown that formal codes of ethics do not necessarily translate into ethical behavior and attitudes.

The important implication of the present research, however, is not so much that use of codes and ethical tolerance are unrelated (in fact, there was a small but significant correlation between them), but that different processes appear to underlie each criterion. Thus, personal ethical values, which are not situational-specific, are most predictive of generalized personal ethical tolerance (i.e. similar to Hunt and Vitell, 1993). On the other hand, workplace-specific measures, such as colleagues’ use of formal codes, is most predictive of use of formal code in the specific work environment. Our results also indicate that gender does not play an important role in determining ethical propensities. As such, the present study supports the occupational socialization theory over gender socialization theory (see Mason and Mudrack, 1996). Note, however, that gender was positively correlated with organizational level (Table II) which, in turn, was found to be a determinant of ethical outcomes. Thus, there is a possibility that gender effects may have been masked by hierarchical level.

An interesting finding of this study is that propensity to use formal codes was predicted by the use of codes by others in the organization, rather than application of the specific requirements within the code. This suggests that the concept of a formal ethical code is not simply an aggregation of specific ethical

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**TABLE III**

Hierarchical multiple regression predicting use of code and ethical tolerance

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<thead>
<tr>
<th>Predictors</th>
<th>Use of code</th>
<th>Ethical Tolerance</th>
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* p < 0.05; ** p < 0.01; *** p < 0.001.
requirements. Rather, it may be that ethical attitudes are holistic in nature, and that an ethical moral climate derives more from a state of mind than a set of carefully crafted and detailed codes.

A further consideration is the question of work-group culture versus organization-wide culture. Trice and Beyer (1993) argue that organizational culture cannot be considered to remain constant across a whole organization or employment sector. In the present study, although organization-wide ethical values were not a predictor of use of codes or ethical tolerance, others’ use of codes was a critical predictor of code usage. This suggests that ethical climate may be determined more at the group level than by organization-wide practices and reward systems. Alternatively, it is possible that respondents may have assessed others’ use of formal codes in a wider context than just an immediate work group. If this is so, then the non-significant results for organizational-level variables would have to be reassessed. Clearly, further research will be needed to clarify this issue.

Finally, our results are consistent with the earlier research which has shown that ethical behavior endorsement increases with level in the organizational hierarchy (Callan, 1992). In this respect, managers lead the way as role models in ethical behavior (Hunt et al., 1984). Since it appears that use of a formal code of ethics is determined by perceptions that others’ use the code, it would seem to follow that senior managers have a pivotal role to play in promulgation of such codes.

**Practical implications**

The main practical implication of the present study is that managers have a special responsibility to encourage their employees to use formal codes of ethics as a means to engender a more positive ethical climate in their organizations. The dominant predictor of use of a formal code to emerge from this study was others’ use of the code. The prime importance of this predictor indicates that organizations need to work to establish a “critical mass” of code users, so that others in the organization adopt this as a normative influence.

At the same time, managers need to realize that ethical behavior involves much more than use of codes of ethics. The present study reveals that ethical tolerance is determined primarily by personal values, and is only marginally determined by use of formal codes. In this respect, managers need to establish a climate where the dominant values support ethical behavior and propensities as a holistic concept, rather than as a set of prescribed ethical obligations.

Finally, it should be noted that an essential assumption underlying the present study is that the code of ethics is of an adequate quality. Research has shown that codes need to be specific enough to be meaningful and pertinent to particular work units, must clearly state basic principles and expectations, must be realistically based on potential dilemmas, must be communicated, and must be enforced (Stead et al., 1990).

**Limitations**

The present research is subject to limitations which must be considered in assessing the results and conclusions. The first of these is that the data were collected using a self-administered survey questionnaire. Thus the data are likely to be affected by social desirability, or a tendency to supply “correct” answers instead of a true reflection of the respondents beliefs, values, and practices. In terms of the objectives of the present study, however, where the focus is on relationships between variables rather than absolute scores, this may not be a problem. A second limitation of this study was that it was conducted only in the Public Sector of one State in Australia. Additional research is required to determine if these results will apply in other sectors, states or countries. Of more importance, however, is the issue of common method covariation. Since hierarchical regression was used to test the study hypotheses, on the other hand, this problem is minimized (Williams and Brown, 1994).

**Conclusions**
Models of ethical decision-making have been a focus in business ethics research for over thirty years. The present study involved a survey of ethical attitudes, beliefs, and practices within public sector organizations, and has largely confirmed the earlier research in respect of the contributions of demographic variables, personal values, contextual variables, and group-level variables. The major contribution of the present study, however, is to reveal that factors underlying the use of formal codes of ethics differ from those underlying ethical tolerance, which is more traditionally studied. Results also highlight some of the inherent practical implications of ethical code usage. Further study needs to be conducted to encourage adherence to codes that exist in organizations, and so to encourage further adoption and refinement of such codes in more organizations. The present study suggests that encouraging the use of a code in an organization is a self-perpetuating activity – the more people who use the code in a given organization, the more likely it is that other individuals will also use the code.

Notes

Dr. Neal M. Ashkanasy, Graduate School of Management; Sarah Falkus, School of Psychology; Professor Victor J. Callan, Graduate School of Management.

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1 A copy of the questionnaire used in this study is available on request from the first author.

References


MAB and MIAC: (1996), ‘Ethical Standards and Values in the Australian Public Service’, *Management Advisory Board and Management Improvement Advisory Committee* 19 (May).


