Managing the Ethical Climate of Customer-Contact Service Employees

Charles H. Schwepker Jr.
Central Missouri State University

Michael D. Hartline
Florida State University

Marketing control theory serves as the framework for the development and testing of a model that examines factors (code enforcement, ethical discussions, and punishment for ethical violations) involved in the internalization of ethical codes by customer-contact service employees. The authors argue that code internalization and perceived ethical climate serve as social and cultural control mechanisms that enhance the attitudinal responses (role stress, job satisfaction, and commitment to service quality) of service employees. The findings suggest that enforcing ethical codes and discussing ethical issues on the job enhance code internalization, which in turn enhances perceptions of the ethical climate, reduces role conflict, and increases commitment to service quality. Ethical climate increases job satisfaction and indirectly affects commitment to service quality by reducing role conflict. Implications for controlling code internalization and managing the firm's ethical climate are provided, along with suggested avenues for future research.

Keywords: *ethical control; internalization of codes of ethics; ethical climate; customer-contact employees; service quality; role ambiguity; role conflict; job satisfaction*

For service firms, the importance of frontline, customer-contact employees cannot be overstated. Because they span the boundary between the firm and its customers, these employees are directly responsible for service quality, customer satisfaction, and ultimately the overall performance of the firm (Hartline and Ferrell 1996). To manage these employees effectively, managers must have a means of controlling their attitudes and behaviors to ensure that they are consistent with high-quality service delivery. Unfortunately, establishing and maintaining control over the attitudes and behaviors of frontline, customer-contact employees is a daunting task.

Among the many challenges of managing service employees, one of the most critical is the management and control of ethical behavior—behavior that is both legal and morally acceptable to a larger community (Jones 1991). Given the positive association between ethical behavior and organizational performance (Barles et al. 2002; Schwepker and Ingram 1996; Verschoor 1999, 2003), it is not surprising that increased emphasis is being placed on ethical employee behavior, particularly among customer-contact employees (Brown et al. 2002). Not only is individual performance enhanced with a commitment to ethics, as demonstrated in research showing a positive relationship between moral judgment and salesperson job performance (Schwepker and Ingram 1996),

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TABLE 1
Common Unethical Behaviors in Customer-Contact Settings

Misrepresenting the nature of the service or creating unrealistic expectations
- Promising a nonsmoking room when none are available
- Quoting a short wait time when actual wait times are much longer
- Quoting only partial prices or prices for the least desirable service options
- Exaggerating the benefits of a specific service offering
- Misrepresenting the credentials of the service provider
- Creating a false need for service

Customer manipulation
- Giving away a guaranteed reservation
- Engaging in excessive overbooking of capacity
- Changing customer appointments for illegitimate reasons
- Performing unnecessary services
- Overcharging for services
- Attempting to pad a bill with hidden charges
- Failing to indicate when a gratuity has been added to a bill
- Hiding mistakes or errors in service delivery
- Hiding damage to customer possessions
- Making it difficult to invoke a service guarantee

General honesty and integrity
- Treating customers unfairly or rudely
- Being unresponsive to customer requests
- Failing to follow stated company policies and procedures regarding service delivery
- Stealing customer credit card information
- Sharing customer information with third parties

but the financial performance of firms committed to ethical behavior is superior to those that are not (Barles et al. 2002; Verschoor 1999, 2003). As boundary spanners, often working without close supervision, customer-contact employees have ample opportunity to engage in unethical behaviors. These employees typically face multiple, conflicting demands stemming from customers, the firm, and the job itself. Consequently, these employees are often placed in situations where ethical standards may be compromised in an effort to serve multiple demands at the same time.

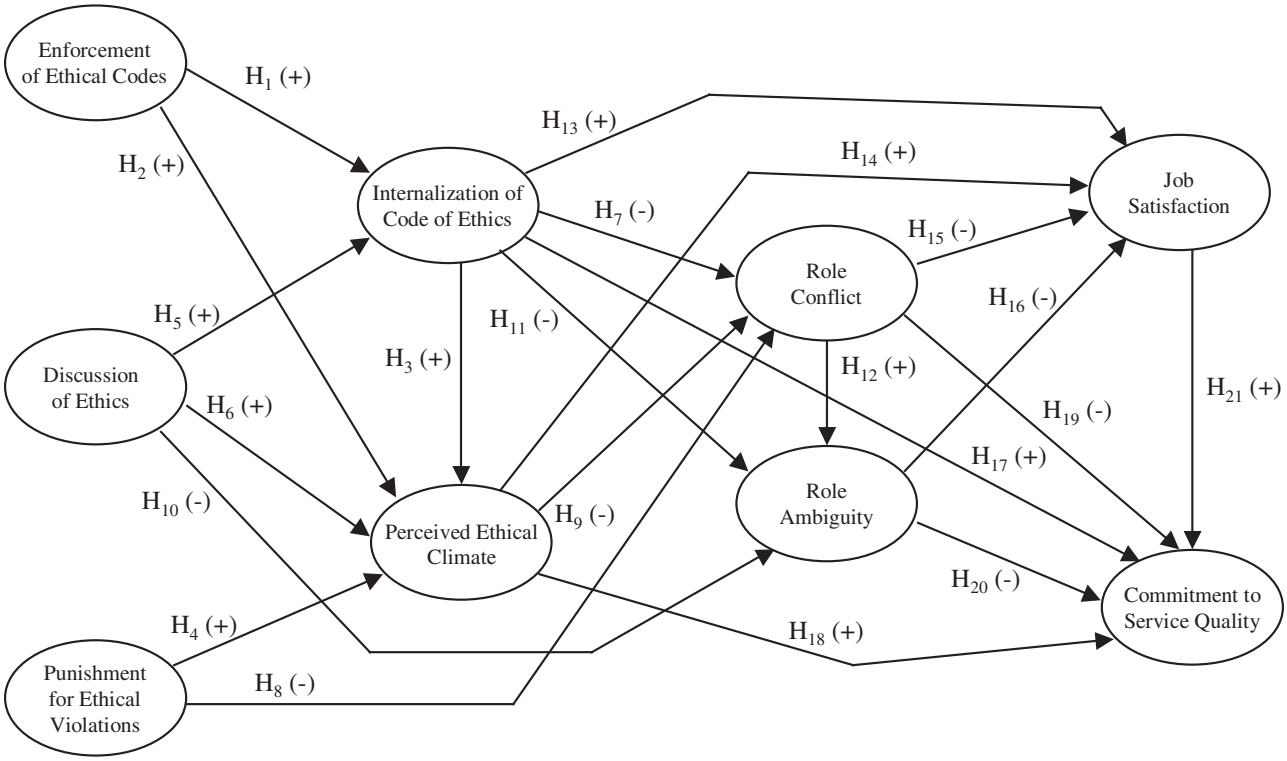
Although unethical behaviors can injure the firm, customers, or both, it is the firm that ultimately loses. The famous case of Sears's automotive service writers, who routinely added contrived repairs to customers' bills, is a good example (cf. Babin, Boles, and Robin 2000). Even though customers were the victims, Sears's reputation and the operation of its automotive service centers were irreparably damaged. Customer-contact employees may routinely engage in unethical behaviors to cover their mistakes, to increase the firm's business, or to simply keep customers happy. Examples of common unethical customer-contact behaviors are shown in Table 1. Research indicates that these types of unethical behaviors are common. In a study of 1,500 U.S. employees, 26% had observed lying to employees, customers, vendors, or the public at large (Ethics Resource Center 2000). This unethical behavior may lead to negative consequences for the firm because the attitudes and behaviors of employees influence customers' perceptions of the service encounter and service quality (Hartline and Ferrell 1996).

Ethical employees exhibit a strong sense of integrity in doing their work and avoid deceptive and dishonest practices in their pursuit of satisfying customer needs (Saxe and Weitz 1982). Such ethical individuals help build trusting and cooperative relationships that help solve problems related to opportunism. Because opportunism and its prevention are costly, firms that maintain relationships with stakeholders (e.g., customers) on the basis of trust, ethics, and integrity will have a competitive advantage over those that do not (Jones 1995). Therefore, to prevent the negative consequences of unethical behavior and to ensure that customer-contact employees' attitudes and behaviors are conducive to the delivery of quality service (and ultimately financial performance), managers must have a means of controlling the ethical behavior of their employees.

As shown in Figure 1, our study is concerned with the effects of formal, management-initiated control mechanisms and informal, employee-initiated control mechanisms (cf. Jaworski 1988; Jaworski, Stathakopoulos, and Krishnan 1993) on the firm's ethical climate and the job responses (i.e., attitudes and behaviors) of customer-contact employees. We argue that *both* formal controls (enforcement of ethical codes, punishment for ethical violations) and informal controls (discussion of ethics, internalization of codes of ethics, ethical climate) are vital to controlling ethical behavior and engendering proper employee perceptions and job responses. This argument is consistent with the widely held view that the combination of formal and informal controls leads to more positive outcomes than separate controls used in isolation (Jaworski, Stathakopoulos, and Krishnan 1993). It is further supported by the argument that corporate ethics programs serve as control systems (Weaver, Trevino, and Cochran 1999). Our goal is to better understand how service firms can influence employees' code internalization (i.e., taking ethical codes on as "one's own") and the firm's ethical climate to affect employees' job responses and commitment to service quality. We also aim to establish the relationship between ethical control and the employee responses that lead to high-quality service.

The results of our study should provide useful insights for incorporating ethics into the strategic planning process of service firms (Robin and Reidenbach 1987). By understanding factors that affect code internalization, as well as how formal and informal controls affect employees' job responses, management can take steps to improve the firm's ethical climate, to improve the delivery of quality service, and to subsequently provide the firm with a com-

FIGURE 1
Hypothesized Model of the Relationships Between Ethical Control, Ethical Climate, and Employee Job Responses



petitive advantage. From a theoretical perspective, our findings should contribute to our knowledge of ethical decision making (cf. Ferrell and Gresham 1985) by explaining how ethical climate affects the job responses of customer-contact employees. Finally, our findings should contribute to service research by advancing our knowledge of how the responses of customer-contact employees may be enhanced, leading to greater customer satisfaction and improved performance (cf. Ahmed and Parasuraman 1994).

We begin by presenting the theoretical framework that supports our model and hypotheses. After we discuss our research method and results, we interpret our findings in light of current theory and discuss implications for service managers. Finally, we address the limitations of the study and suggest avenues for future research.

CONTROLLING THE ETHICAL CLIMATE AND EMPLOYEE RESPONSES

The hypothesized model depicted in Figure 1 is grounded in theories of marketing control (Jaworski 1988) and ethical decision making (Ferrell and Gresham 1985). With respect to control theory, Jaworski (1988) identified two major types of control: formal and informal. Formal control refers to management-initiated mechanisms that are designed to influence employee and/or group behavior in ways that support the objectives of the firm. Common examples include employee training, strategic planning, resource allocations, operating procedures, discipline/rewards, structure, and performance standards. Informal control refers to employee-initiated mechanisms that influence individual or group behavior in ways that may or may not support the firm's objectives. Examples include culture, group norms, personal goals, and social interaction.

Researchers have long noted that control is more effective when multiple controls (both formal and informal) are used in combination (cf. Anthony 1952). Two formal control mechanisms are included in our model: enforcement of ethical codes and punishment for ethical violations. Research in ethical decision making (Ferrell and Gresham 1985) has shown that these formal controls positively influence a firm's ethical climate and ethical behavior. By developing, communicating, and enforcing a code of

ethics; punishing unethical behavior; and limiting rewards for unethical behavior, firms diminish the opportunity for employees to engage in unethical behavior (Ferrell and Gresham 1985). Such actions send a message regarding desired behavior and make it undesirable to participate in unethical behavior. In addition to these formal controls, our model is also rooted in the importance of informal control in service settings (cf. Hartline, Maxham, and McKee 2000) as it includes three informal control mechanisms: the discussion of ethics on the job, internalization of the code of ethics by employees, and the firm's ethical climate. These informal controls are important because service quality and customer satisfaction depend on customers' interactions with employees and employee work groups. The social and cultural influences created via informal controls are vital in ensuring that customer-contact employees adopt the firm's standards of ethical behavior and service performance (Hartline, Maxham, and McKee 2000; Jaworski 1988; Mills 1985). In the context of ethical decision making, these informal social and cultural controls allow employees to learn to be ethical from significant others (i.e., managers and coworkers) in the work setting (Ferrell and Gresham 1985).

To sum, the overriding premise of our study is that service firms must use both formal and informal controls in an effort to limit the opportunities for unethical behavior, to promote a general climate of ethicalness, and to enhance employee responses that are conducive to the delivery of high-quality service. Formal controls are necessary because they set the rules or standards for ethical conduct and the boundaries for what is considered acceptable behavior. Code enforcement represents the proactive and positive side of this effort, whereas punishment represents the reactive and negative side. Both are designed to promote compliance with the firm's ethical code. Informal controls are necessary because they bring the formal controls to a personal and individual level where employees monitor and regulate their ethical behavior—individually, in work groups, or within the context of the firm's culture.

The Effects of Formal and Informal Controls on Ethical Climate

Climate refers to shared employee perceptions regarding policies and procedures and to the behaviors that get supported, rewarded, and expected by organizations (Schneider and Rentsch 1988). Ethical climate has been defined as "the prevailing perceptions of typical organizational practices and procedures that have ethical content" (Victor and Cullen 1988, p. 101). A firm's ethical climate may be viewed as a composite of organizational perceptions of the ethical values and behaviors supported and practiced by organizational members. Because ethical climate exists among employees and guides their behaviors, it is a type of cultural control. Cultural controls, which result from an accumulation of organizational rituals, stories, and norms of interaction, are informal and largely determined by the normative values and behavior patterns that exist among employees throughout the firm (Jaworski 1988; Ouchi 1979). As a result, ethical climates that are neither clear nor positive offer little in the way of control, which results in an increase in ethical dilemmas and unethical behavior (Sims 1994). However, when a climate is created where ethical values and behaviors are fostered, supported, and shared, more ethical behavior occurs (Vardi 2001; Wimbush and Shepard 1994).

One of the most important influences on the firm's ethical climate is a written code of ethics—a formal, management-initiated control that sets standards or expectations regarding both preferred and problematic behaviors (Brothers 1991; Weaver 1993). Although some criticize the ability of ethical codes to influence behavior (cf. Grundstein-Amado 2001; Tsalikis and Fritzsche 1989), evidence suggests that ethical codes have a positive influence on ethical decision making and the overall ethical climate within an organization (Barnett and Vaicys 2000; Hegarty and Sims 1978; McCabe, Trevino, and Butterfield 1996).

Although the presence and enforcement of ethical codes have been associated with increased ethical behavior (Ferrell and Skinner 1988), codes of ethics are most effective when employees internalize them. Internalization refers to an experiential learning process where an employee's behavior is modified by taking on norms or rules as "their own" (Grundstein-Amado 2001). Code internalization is a form of social control—an informal, employee-based control built on the adoption and "internalization of values and mutual commitment toward some common goal" (Jaworski 1988, p. 27). Such internalization is an outcome of other controls in use (i.e., enforcement of ethical codes and discussion of ethics), as well as the socialization process (training, mentoring, etc.) employed by the firm. In fact, internalization of the firm's norms, values, and codes is the stated goal of virtually all socialization programs (cf. Allen and Meyer 1990; Jones 1986). The prevailing social interaction among employees (i.e., social control) serves to both monitor and correct employee behavior vis-à-vis the ethical standards outlined in the code. Note that this type of control differs from cultural control (ethical climate in our study) because it is more individualized. Therefore, as a means of social control, code internalization represents a specific, individualized outcome of the socialization and control framework employed by the firm. Code internalization occurs (and social control becomes most effective) when employees are made aware of the code of ethics, understand it, and accept it in their work.

It stands to reason that the enforcement of ethical codes will have a positive impact on code internalization. By enforcing codes, organizations emphasize their importance so that employees are less likely to view ethical codes as "window dressing" for the firm. Active code enforcement can also serve as an agent of employee socialization to engender an institutionalized role orientation that supports organizational norms and values regarding ethical compliance (cf. Jones 1986). As a result, employees are more likely to be aware of, understand, and practice the ethical code so as to ensure compliance and avoid any negative consequences (e.g., reprimand, termination). Given that codes of ethics delineate preferred and problematic behaviors (Brothers 1991; Weaver 1993), positively influence the overall ethical climate within an organization (Barnett and Vaicys 2000; McCabe, Trevino, and Butterfield 1996), and that if internalized and enforced result in higher levels of ethical behavior (Ferrell and Skinner 1988; Grundstein-Amado 2001), ethical codes that are enforced should produce a more ethical climate. Accordingly, we propose the following relationships among these formal and informal ethical controls:

Hypothesis 1: The enforcement of the code of ethics increases employees' internalization of the ethical code.

Hypothesis 2: The enforcement of the code of ethics enhances employees' perceptions of the firm's ethical climate.

Hypothesis 3: Internalization of the firm's ethical code enhances employees' perceptions of the firm's ethical climate.

Another important influence on the firm's ethical climate is management's use of punishment for unethical behavior (Posner and Schmidt 1987). Based on control theory, punishment, or even the simple threat of punishment, is a formal control that is designed to influence and shape employee behavior (Jaworski 1988; Nielsen 2000). This argument is supported in ethical decision-making research where appropriately distributed discipline has been shown to correct problem behavior and increase performance and satisfaction (Podsakoff 1982). However, the absence of punishment provides an increased opportunity for unethical behavior.

Although management's use of punishment has clear implications with respect to behavior reinforcement theory (Skinner 1969), we emphasize the control aspects of punishment. The use of punishment establishes the firm's ethical climate with respect to expectations regarding acceptable behavior, thereby reducing the perceived opportunity to engage in unethical actions (Hegarty and Sims 1978; Trevino 1986; Trevino and Ball 1992). The use of punishment clearly articulates normative values regarding ethical behavior, thereby controlling the likelihood for ethical dilemmas and reducing the occurrence of unethical behavior (Sims 1994; Wimbush and Shepard 1994). Accordingly, we propose the following hypothesis:

Hypothesis 4: The firm's punishment of ethical violations enhances employees' perceptions of the firm's ethical climate.

Controlling the firm's ethical climate also hinges on organizational communication processes, particularly the interpersonal interactions among members of a work group. Grundstein-Amado (2001) argued that the group provides an effective mechanism for exerting influence on the ethical behavior of each member and is necessary for bringing about effective code internalization. In essence, cultural control, and the firm's ethical climate, is engendered partly through an informal socialization process that includes shared communication and even simple conversation (cf. Allen and Meyer 1990; Thomas, Kellogg, and Erickson 2001).

Work group processes, like the discussion of ethical issues at work, have a profound influence on employee behavior and the adoption of organizational norms and values (Hartline, Maxham, and McKee 2000; Trevino et al. 1999). As a type of informal social control, the discussion of ethical issues promotes group interaction that establishes prevailing standards and monitoring of employee ethical behavior (cf. Jaworski 1988; Ouchi 1979). These interactive processes transform information into meaning, create organizational knowledge, and engender individualized responses such as internalization of the firm's ethical code (West and Meyer 1997). Shared communication and conversation should also create a climate where ethics plays a more prominent role in employees' work (Schneider and Reichers 1983). Therefore, we anticipate that the discussion of ethical issues will increase code internalization and enhance employees' perceptions of the firm's ethical climate:

Hypothesis 5: The discussion of ethical issues on the job increases employees' internalization of the firm's ethical code.

Hypothesis 6: The discussion of ethical issues on the job enhances employees' perceptions of the firm's ethical climate.

The Effects of Formal and Informal Controls on Employees' Job Responses

To this point, we have discussed the effects of formal controls (enforcement of ethical codes, punishment for ethical violations) and informal controls (code internalization, discussion of ethics at work) on the firm's ethical cli-

mate (cultural control, a type of informal control). These formal and informal controls should exert considerable influence on the job responses of customer-contact service employees (cf. Loe and Ferrell 1997). In this study, we are concerned with the job responses that have been consistently linked to customers' perceptions of service quality, namely, role stress (conflict and ambiguity), job satisfaction, and commitment to service quality (cf. Ahmed and Parasuraman 1994; Hartline and Ferrell 1996; Hartline, Maxham, and McKee 2000; Singh 2000). We argue that the use of both formal and informal ethical controls will foster a work environment whereby customer-contact employees are more likely to exhibit the job responses that are consistent with a strategy of delivering exceptional service quality.

In the sections that follow, we discuss the relationships between control mechanisms and employee job responses. As a part of this discussion, we also address many well-known relationships among job responses. Because these relationships have been well documented in the literature, they are not a major focus in our study. However, these relationships are included here to maintain consistency and promote comparability with previous research.

Role conflict. Evidence indicates that role conflict stems more from ethical dilemmas than from any other source (Chonko and Burnett 1983). Role conflict develops when two or more role expectations occur simultaneously in which compliance with one would make compliance with the other difficult or impossible (Kahn et al. 1964). Given the nature of boundary-spanning positions, employees may compromise ethical standards in an effort to serve both customers and the firm. Research by Weatherly and Tansik (1993) suggests that customer-contact employees often engage in unethical behaviors (such as sabotaging or withholding service or avoiding customer requests) to punish managers or customers who add to their role demands. Furthermore, a survey by the Ethics Resource Center (2000) found that roughly 15% of frontline managers feel pressure to compromise ethical standards to achieve their objectives, whereas 37% of these same managers have personally observed ethical misconduct at work. Increased pressure from supervisors was also cited as a significant reason for ethical conflict among employees.

Several scholars point to codes of ethics as a means of resolving the conflict arising from ethical dilemmas (e.g., Dubinsky 1985). When employees internalize the firm's ethical codes, the organization's ethical values are no longer pitted against individual values. This form of informal (social) control lessens potential conflict because the alignment of ethical value structures promotes self-regulation or group regulation of behavior (Jaworski 1988). Furthermore, a firm's ethical code will in part reflect its intentions to provide a quality service experience to customers. This affords an additional opportunity to reduce conflict by ensuring the consistency of service-related values between the organization and its employees. Accordingly, we propose the following:

Hypothesis 7: The internalization of the firm's ethical code reduces employees' levels of role conflict.

Similarly, management's use of punishment for ethical violations is likely to reduce role conflict because employees will better understand the organization's stance with respect to ethics and will have a clearer picture for what is deemed to be acceptable behavior. As a type of formal control, punishment clearly articulates cause and effect, thereby reducing the potential likelihood of conflict-inducing ethical dilemmas (cf. Jaworski 1988; Schwepker, Ferrell, and Ingram 1997). On the basis of this logic, we propose the following:

Hypothesis 8: The firm's punishment of ethical violations reduces employees' levels of role conflict.

Furthermore, the cultural control exerted by the firm's ethical climate will likely cause employees' ethical standards to align with the standards expected by the firm (cf. Schneider and Rentsch 1988). Employees desire consistency between their ethical value system and the ethical values held by the firm. Moreover, they want policies and codes of ethics to establish boundaries of ethical behavior (Dubinsky et al. 1992). This coalescence of values stemming from the ethical climate should create the necessary cultural control to prevent, or at least reduce, conflict arising from ethical situations (cf. O'Reilly, Chatman, and Caldwell 1991). Limited initial support for this contention has been established in the literature (Babin, Boles, and Robin 2000; Schwepker, Ferrell, and Ingram 1997). Hence, we examine this relationship as follows:

Hypothesis 9: Favorable perceptions of the firm's ethical climate reduce employees' levels of role conflict.

Role ambiguity. Unlike role conflict that deals with stress caused by conflicting roles, role ambiguity stems from intrarole stress caused by the lack of information concerning role expectations (Kahn et al. 1964). As a result, the stress associated with role ambiguity is typically connected to ongoing work activities, such as how to fulfill customer requests or how best to assist fellow employees (cf. Singh 2000). Ethical dilemmas that arise in these situations will cause employees to be uncertain as to how to best proceed in fulfilling their boundary-spanning roles.

We anticipate that controlling the negative effects of role ambiguity is best done through informal control mechanisms, particularly the discussion of ethics on the

job and the internalization of the ethical code. The informal or work group setting has been shown to exert considerable influence over boundary-spanning behavior (cf. Hartline, Maxham, and McKee 2000). By discussing ethical issues at work and internalizing the code of ethics, these employees are more likely to accept ethical standards as expected and natural aspects of their jobs, thereby experiencing less ambiguity about how to fulfill their role. With their role expectations clarified, these employees should be more certain about an appropriate response when an ethical dilemma arises (Brothers 1991; Koh and Boo 2001). Therefore, we propose the following:

Hypothesis 10: The discussion of ethical issues on the job reduces employees' levels of role ambiguity.
Hypothesis 11: Internalization of the firm's ethical code reduces employees' levels of role ambiguity.

A plethora of research suggests that role conflict increases role ambiguity, whereas ambiguity maintains direct effects on employees' job responses, including satisfaction and commitment (cf. Jackson and Schuler 1985; Singh, Verbeke, and Rhoads 1996). For consistency and comparability, we include the following hypothesis in our model:

Hypothesis 12: Employee role conflict increases employee role ambiguity.

Job satisfaction. Job satisfaction has been defined as "the pleasurable emotional state resulting from the appraisal of one's job as achieving or facilitating the achievement of one's job values" (Locke 1969, p. 316). Satisfaction may be extrinsic—resulting from external factors such as pay, company policies and support, supervision, fellow workers, chances for promotion, and customers—as well as intrinsic—derived from internal factors such as the job itself or opportunities for personal growth and accomplishment (Brown and Peterson 1993). In this respect, our study's focus on control mechanisms emphasizes external factors that affect job satisfaction.

Previous research indicates that job satisfaction increases when ethical behavior is stressed within the firm (Schwepker 2001; Vitell and Davis 1990). Given the influence of the work group in boundary-spanning settings (Hartline, Maxham, and McKee 2000), we anticipate that code internalization (social control) and ethical climate (cultural control) will have a strong impact on job satisfaction. These controls affect employee responses due to the pressure for conformity to group norms that stems from within the work group (Jaworski 1988). Employees who do not conform run the risk of being ostracized by the group. In total, these pressures increase job satisfaction because they set boundaries for expected behavior (Dubinsky et al. 1992). As a result, we contend that employees who internalize the ethical code and work within a more ethical climate will be more satisfied with their jobs because their responses are more consistent with work group pressures (cf. Weeks and Nantel 1992). Accordingly, we propose the following:

Hypothesis 13: Internalization of the firm's ethical code increases employees' levels of job satisfaction.
Hypothesis 14: Favorable perceptions of the firm's ethical climate increase employees' levels of job satisfaction.

Research has shown consistently that role conflict and role ambiguity affect employee job satisfaction negatively (cf. Brown and Peterson 1993; Hartline and Ferrell 1996). Accordingly, we include these hypotheses in the model for consistency:

Hypothesis 15: Role conflict reduces employees' levels of job satisfaction.
Hypothesis 16: Role ambiguity reduces employees' levels of job satisfaction.

Commitment to service quality. Employee commitment to service quality (ECSQ) is a form of attitudinal commitment that can be described as the strength of an individual's dedication to providing quality service to an organization's customers (cf. Ahmed and Parasuraman 1994). Although it is conceptually similar to organizational commitment (Mowday, Steers, and Porter 1979), it differs in that ECSQ involves a personal, affective commitment to improve the firm's service quality rather than commitment to the organization itself (Hartline and Ferrell 1996). Although employee commitment to service quality has generally not been investigated, Hartline and Ferrell (1996) found that a manager's commitment to service quality had tremendous effects on employee responses, including their ability to deliver high-quality services. Generally higher levels of commitment to quality can have many positive effects within the firm, including greater customer satisfaction, improved performance, and lower turnover (cf. Ahmed and Parasuraman 1994; Mathieu and Zajac 1990).

As with job satisfaction, we expect that informal control mechanisms will exert a strong effect on employee commitment to service quality. Although ethical codes will differ, virtually all codes contain directives regarding how customers are to be treated. This is true whether the firm develops its own ethical code or adopts the code of its industry or profession (i.e., lawyers, doctors, accountants, marketers). These directives are critical for customer-contact service employees (and all boundary-spanning employees) as they have considerable opportunity to

engage in unethical activities in their dealings with customers (Babin, Boles, and Robin 2000; Ethics Resource Center 2000). This fact makes code internalization a critical mechanism for establishing ethical control within the firm. When employees internalize the firm's code of ethics, they accept the code's values and directives as their own, essentially making a commitment to live those values and directives on the job (cf. Jaworski 1988). Likewise, employees are likely to experience increased pressure to conform to work group expectations as the code's directives become instilled within the firm's ethical climate. When employees' preferred ethical climate and actual ethical climate match, they tend to exhibit a greater degree of commitment (Sims and Kroeck 1994). Moreover, research showing a positive relationship between ethical climate and organizational commitment further supports such a link (Schwepker 2001; Trevino, Butterfield, and McCabe 1998). As a result of these enhanced levels of social and cultural controls, we expect employee commitment to service quality to increase significantly:

Hypothesis 17: Internalization of the firm's ethical code increases employees' commitment to service quality.

Hypothesis 18: Favorable perceptions of the firm's ethical climate increase employees' commitment to service quality.

The relationship between role stress and employee commitment to service quality has not been investigated empirically. However, research does indicate that organizational commitment is affected negatively by role conflict and role ambiguity (cf. Jackson and Schuler 1985; Mathieu and Zajac 1990). Moser (1988) suggested that conflict resulting from ethical dilemmas may result in disloyalty, uncooperativeness, absenteeism, and reduced quality. This argument is supported in a study by Schwepker (1999) that found a negative relationship between ethical conflict and the organizational commitment of salespeople. For consistency with previous research, we suggest that employees who experience higher levels of role stress will be less committed to providing quality service to customers. Hence, we hypothesize the following:

Hypothesis 19: Role conflict reduces employees' commitment to service quality.

Hypothesis 20: Role ambiguity reduces employees' commitment to service quality.

The relationship between job satisfaction and employee commitment to service quality has also not been examined empirically. However, job satisfaction's relationship to organizational commitment has been studied extensively. Although findings are mixed, there is strong evidence that organizational commitment is affected positively by job satisfaction (cf. Brown and Peterson 1993; Williams and Hazer 1986). Service researchers have argued that satisfied employees are more likely to exhibit behaviors that are conducive to the delivery of quality service (cf. Hartline and Ferrell 1996; Hartline, Maxham, and McKee 2000). To test this supposition, we propose that more satisfied employees are likely to exhibit greater commitment to delivering excellent service:

Hypothesis 21: Job satisfaction increases employees' commitment to service quality.

RESEARCH METHOD

Sample and Data Collection

To ensure variation in ethical climate and employee responses, we chose hotel services as the setting for data collection. Hotels provide a viable sampling frame for our study due to the fact that data can be collected across multiple units in the same industry. This helps to ensure variation in responses while controlling for any biasing effects due to industry differences. Hotels also provide a setting where managers work closely with employees, employees work closely with each other, and employees have ample opportunity to interact with customers. Likewise, hotels provide a setting in which employees have a broad range of contact experiences with hotel guests (i.e., low contact to high contact). This setting should be ideal for examining the effects of ethical climate on employees' perceptions and responses.

To initiate a sample, the marketing managers of nine hotel chains were contacted. These chains represent the midpoint of the price-quality spectrum in the industry and are similar in terms of amenities, size, clientele, and corporate performance. Three of these chains, totaling 444 hotel units, agreed to participate by providing a mailing list of general managers' names and addresses. However, the chains would not allow the researchers to have direct access to their employees. As a result, we had to rely on each general manager to distribute the questionnaires to employees. Questionnaire packets containing five employee surveys were mailed to each general manager, with instructions to distribute the surveys to a broad range of customer-contact employees within the hotel unit (e.g., front desk, food service, housekeeping, bell staff). Approximately 2 months later, a second wave of the same materials was mailed to hotels that had not responded during the initial mailing. All questionnaires were returned postage paid directly to the researchers.

TABLE 2
Measures Used in the Study

Construct	*Sources*	*Operationalization*	*Reliability*[a]
Enforcement, punishment, and discussion	Developed for this study based on the work of Schwepker, Ferrell, and Ingram (1997) and Herndon (1991)	Single-item, 7-point measures that assess the degree to which ethical codes are enforced, the degree to which ethical violations are punished, and the degree to which ethics are discussed at work	.81[b]
Internalization of ethical codes	Adapted from the work of Victor and Cullen (1988) and Herndon (1991)	A 4-item, 7-point scale that measures the extent to which customer-contact employees are aware of, understand, and accept the firm's code of ethics	.74
Ethical climate	Adapted from the work of Qualls and Puto (1989) and Herndon (1991)	A 7-item, 7-point scale that measures the overall ethical climate within the firm	.79
Role conflict	Chonko, Howell, and Bellenger (1986)	A 12-item, 5-point scale that measures the extent to which customer-contact employees experience role conflict	.83
Role ambiguity	Chonko, Howell, and Bellenger (1986)	A 17-item, 5-point scale that measures the extent to which customer-contact employees experience role ambiguity	.91
Job satisfaction	Brown and Peterson (1993)	A 5-item, 5-point scale that measures the job satisfaction of customer-contact employees across a variety of dimensions	.82
Employee commitment to service quality	Adapted from Mowday, Steers, and Porter (1979)	A 7-item, 5-point scale that measures the commitment of customer-contact employees to delivering quality service to customers[c]	.82

a. Reliability estimates are Cronbach's alphas.
b. The reliability of these measures was fixed at .81. See the appendix for further information.
c. Mathieu and Zajac (1990) found that Mowday, Steers, and Porter's (1979) Organizational Commitment Scale contains two dimensions: affective commitment and desire to remain with the organization. We adapted the affective commitment items to measure commitment to service quality.

Of the total sample, 279 different hotel units responded (62.8% unit response rate) by returning at least one questionnaire. Of the 767 questionnaires that were returned, 24 were deemed not usable—leaving a final usable response of 743 questionnaires (33.5% response rate). Since 165 hotels failed to return a single questionnaire, we tested for nonresponse bias using a time-trend extrapolation test (Armstrong and Overton 1977). We found no differences between early and late employee respondents on demographic characteristics or any construct examined in this study.

The demographic characteristics of the employees in our sample are typical of the hotel industry. Most are 20 to 30 years of age (63.8%) and have some college education (43.3%). Employee respondents were screened to ensure that their jobs involved customer contact by asking them to report their job position on the questionnaire. After confirming these reports with corporate managers, the 182 employees who did not meet this criterion were dropped before conducting any empirical analyses—leaving a final sample of 561 customer-contact employees. These employees work in a variety of positions, including front desk (31.7%), housekeeping (20.7%), guest services/concierge (20.3%), food service, wait staff, or bartenders (9.4%), bell staff (5.3%), sales (4.8%), reservations or telephone operators (3.2%), or other contact positions (4.5%).

Measures

To remain consistent with previous research, the measures were adapted from previous studies in marketing, management, and psychology (see Table 2). We subjected all measures to confirmatory factor analysis to assess their psychometric properties and unidimensionality. The details and results of our measure validation procedures are provided in the appendix.

Our choice of measures related to enforcement, punishment, discussion, and ethical climate are based on how employees perceive ethical behaviors and beliefs in their work environment. We are not concerned here with how individuals perceive the ethical reasoning of those in their work environment (e.g., Victor and Cullen 1988).

Analysis

Before estimating the hypothesized model, we computed the variance inflation factor (VIF) for each variable to assess multicollinearity. The VIF, the inverse of $(1 - R^2)$, should be close to 1.00, indicating little or no multicollinearity. Hair et al. (1995) suggested a cutoff value of 10.00 as an acceptable VIF. In our study, the highest VIF occurs for code internalization (VIF = 2.04, R^2 = .51), indicating very little multicollinearity among the variables.

TABLE 3
Hypothesized and Final Path Models of Ethical Control in Service Firms: Structural Parameter Estimates (*N* = 506)

		Hypothesized Model			*Final Model*		
Path	*Hypothesis**	*Coefficient*	t-*Value*	R^2	*Coefficient*	t-*Value*	R^2
Enforcement → Internalization	*Hypothesis 1 (+)	.802	15.86	.760	.788	15.34	.706
Discussion → Internalization	*Hypothesis 5 (+)	.135	2.75		.104	2.10	
Enforcement → Ethical Climate	Hypothesis 2 (+)	–.097	–0.61	.474			.442
Discussion → Ethical Climate	Hypothesis 6 (+)	–.123	–1.99				
Punishment → Ethical Climate	*Hypothesis 4 (+)	.120	2.35		.111	2.22	
Internalization → Ethical Climate	*Hypothesis 3 (+)	.781	4.59		.624	12.02	
Internalization → Role Conflict	*Hypothesis 7 (–)	–.301	–3.88	.198	–.294	–3.87	.205
Punishment → Role Conflict	*Hypothesis 8 (–)	–.101	–1.90		–.103	–1.95	
Ethical Climate → Role Conflict	*Hypothesis 9 (–)	–.132	–1.69		–.151	–1.98	
Discussion → Role Ambiguity	*Hypothesis 10 (–)	–.115	–2.31	.488	–.132	–3.16	.499
Internalization → Role Ambiguity	Hypothesis 11 (–)	–.044	–0.80				
Role Conflict → Role Ambiguity	*Hypothesis 12 (+)	.644	13.72		.668	15.95	
Internalization → Satisfaction	Hypothesis 13 (+)	.429	6.19	.528			.545
Ethical Climate → Satisfaction	*Hypothesis 14 (+)	.199	2.93		.284	5.01	
Role Conflict → Satisfaction	Hypothesis 15 (–)	–.089	–1.34				
Role Ambiguity → Satisfaction	*Hypothesis 16 (–)	–.185	–2.98		–.236	–5.50	
Enforcement → Satisfaction	Not hypothesized				.365	6.06	
Discussion → Satisfaction	Not hypothesized				.094	1.88	
Internalization → ECSQ	*Hypothesis 17 (+)	.239	2.89	.388	.285	5.41	.394
Ethical Climate → ECSQ	Hypothesis 18 (+)	.020	0.27				
Role Conflict → ECSQ	*Hypothesis 19 (–)	–.367	–5.07		–.452	–8.72	
Role Ambiguity → ECSQ	Hypothesis 20 (–)	–.093	–1.36				
Satisfaction → ECSQ	Hypothesis 21 (+)	.046	0.61				
Goodness-of-fit statistics		$\chi^2_{12} = 31.62$, $p = .002$			$\chi^2_{18} = 23.88$, $p = .159$		
		GFI = .986			GFI = .990		
		AGFI = .948			AGFI = .975		
		CFI = .985			CFI = .996		
		PNFI = .326			PNFI = .491		
		RMSR = .023			RMSR = .024		

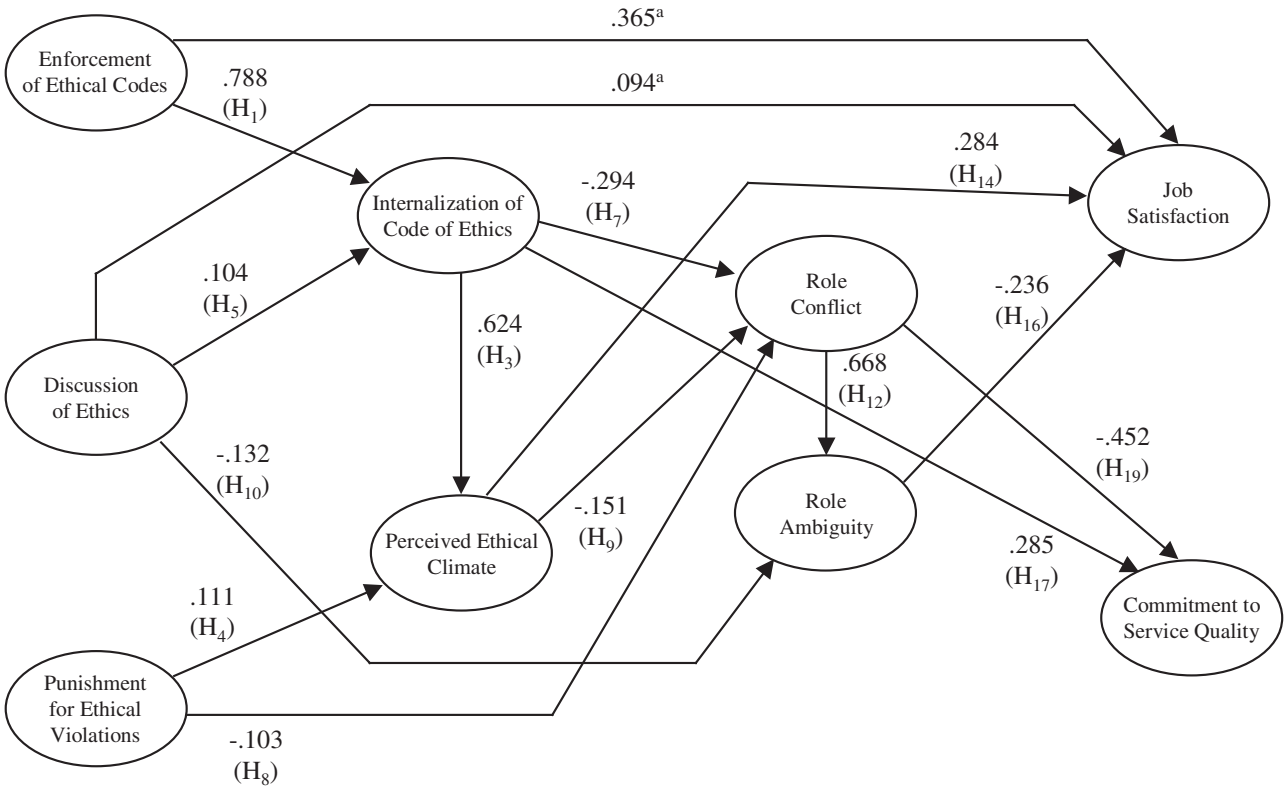
NOTE: ECSQ = employee commitment to service quality; GFI = Goodness-of-Fit Index; AGFI = Adjusted Goodness-of-Fit Index; CFI = Comparative Fit Index; PNFI = Parsimony Normed Fit Index; RMSR = root mean square residual.
*Indicates support for hypothesis.

We tested the hypothesized model using LISREL (Jöreskog and Sörbom 1993) by examining the completely standardized parameter estimates and their *t*-values. Estimating the hypothesized model produced the following statistics: $\chi^2_{12} = 31.62$ ($p = .002$), Goodness-of-Fit Index (GFI) = .986, Adjusted Goodness-of-Fit Index (AGFI) = .948, Comparative Fit Index (CFI) = .985, and Parsimony Normed Fit Index (PNFI) = .326. The structural parameter estimates from the hypothesized model are reported in Table 3. One-tailed significance tests were used to determine the significance of each path coefficient. An examination of the modification indices revealed that adding two paths to the model (enforcement of ethical codes → job satisfaction and discussion of ethics → job satisfaction) would greatly improve model fit. These paths were added, and the model was estimated a second time. In this revised model, eight hypothesized paths were not significant, hence they were dropped to create a more parsimonious model. Model trimming is appropriate in exploratory research if it is not used as a substitute for a priori hypothesis development (Anderson and Gerbing 1988). Estimating the final, trimmed model produced the following statistics: $\chi^2_{18} = 23.88$ ($p = .159$), GFI = .990, AGFI = .975, CFI = .996, and PNFI = .491. The structural estimates from the trimmed model are reported in Table 3. A comparison of the fit statistics from both models indicates that the final model fits somewhat better and is more parsimonious than the hypothesized model. The final path model is shown in Figure 2.

RESULTS

The results indicate that both formal and informal ethical controls have a significant impact on employees' attitudinal responses. These effects stem primarily from a com-

FIGURE 2
Final Model of the Relationships Between Ethical Control, Ethical Climate, and Employee Job Responses



a. Path was not hypothesized.

bination of increased code internalization and favorable perceptions of the firm's ethical climate. However, the controls that enhance code internalization and ethical climate differ, as do their effects on role stress, job satisfaction, and commitment to service quality.

Our results show that code internalization is increased by the enforcement of codes (supporting Hypothesis 1) and the discussion of ethical issues on the job (supporting Hypothesis 5). However, employees' perceptions of the firm's ethical climate are affected only by code internalization (supporting Hypothesis 3) and punishment for ethical violations (supporting Hypothesis 4). We found no support for Hypothesis 2 or Hypothesis 6 as the enforcement of ethical codes and the discussion of ethics on the job have no effect on perceived ethical climate. Taken together, these results suggest that employees' perceptions of the ethical climate are a function of their code internalization and an understanding that their firm punishes employees for ethical violations.

Our results also demonstrate that the enforcement of codes, the discussion of ethics, and the use of punishment have additional direct effects on role stress and job satisfaction. First, the firm's use of punishment reduces employees' role conflict, supporting Hypothesis 8. Similarly, the discussion of ethics on the job reduces employees' role ambiguity, supporting Hypothesis 10. Although not hypothesized, we found evidence that employees' job satisfaction is enhanced directly by both the enforcement of codes and the discussion of ethics.

Finally, our findings suggest that code internalization and perceived ethical climate work differently with respect to their influence on role stress, job satisfaction, and commitment to service quality. Both control mechanisms reduce role conflict, supporting Hypothesis 7 and Hypothesis 9. And, although we found that code internalization increases commitment to service quality (supporting Hypothesis 17), we found no evidence that code internalization reduces role ambiguity (Hypothesis 11) or increases

job satisfaction (Hypothesis 13). Furthermore, our results indicate that favorable perceptions of the ethical climate increase job satisfaction, supporting Hypothesis 14. However, we found no support for Hypothesis 18 as perceived ethical climate has no effect on commitment to service quality. As expected, role conflict has strong, negative effects on role ambiguity (supporting Hypothesis 12) and commitment to service quality (supporting Hypothesis 19), whereas role ambiguity has a strong, negative effect on job satisfaction (supporting Hypothesis 16). Finally, we found no evidence of a relationship between role conflict and job satisfaction (Hypothesis 15), role ambiguity and commitment to service quality (Hypothesis 20), or job satisfaction and commitment to service quality (Hypothesis 21).

DISCUSSION

Our study provides many useful insights for both managers and researchers by empirically linking ethical control mechanisms with ethical climate and employees' job-related responses. The lack of research on ethical control in service settings is surprising given the ample opportunities that customer-contact employees have to engage in unethical behaviors. Given the vital importance of customer-contact employees to the implementation of initiatives that influence customers' perceptions of service quality (Hartline and Ferrell 1996), our findings provide evidence that ethical control plays a major role in shaping the employee responses that are known to be essential to high-quality service delivery. Our results also suggest that ethical control may be yet another key ingredient in the service profit chain (cf. Heskett, Sasser, and Schlesinger 1997). As a potentially important part of internal service quality, ethical control can create favorable conditions and environments within the workplace that lead to stronger feelings of satisfaction, commitment, and loyalty among the firm's employees. In the end, ethical control and a strong ethical climate can lead to many positive outcomes throughout the service profit chain, including increased productivity and service quality (cf. Lau 2000).

Internalization of Ethical Codes

A market-oriented service firm needs customer-oriented employees who will implement its strategies. This, in part, calls for employees who practice ethical behavior—particularly ethical behavior directed toward customers. We argue that the practice of ethical behavior hinges on employees' internalization of the firm's ethical code. This form of social control is critical because it establishes normative values and behavioral patterns among employees (Jaworski 1988). As employees internalize these values, they are more likely to exhibit responses and behaviors toward customers that are consistent with the requirements of being customer oriented (Grundstein-Amado 2001; Hartline and Ferrell 1996). As a result, managers should be keenly aware of the customer-focused elements of the ethical code to ensure that employees fully understand and ascribe to these directives. If the company's codes are lacking in the appropriate customer emphasis, the codes should be modified to include ethical guidelines for the appropriate treatment of customers.

Our results suggest that code internalization is driven by both formal, management-initiated controls (code enforcement and punishment) and informal, employee-initiated controls (discussion of ethics). Furthermore, our results indicate that code internalization, rather than the simple presence of the codes themselves, is necessary for the creation of an appropriate ethical climate. Service managers can enhance code internalization by actively enforcing the firm's code of ethics. This is an important finding in light of the criticism levied against the effectiveness of ethical codes (cf. Tsalikis and Fritzsche 1989). Managers can enforce (i.e., carry out effectively) the firm's code of ethics in several ways. First, managers should closely monitor employee behaviors to ensure compliance. Employees should understand that they are being monitored for compliance, as the simple act of monitoring can help to enforce the code. Second, ethics appraisals (or knowing that one will be conducted) can help enforce the company's code of ethics. Ethics monitoring and appraisals should be included as part of each employee's regular performance review. Employees who exhibit low ethical performance can be required to undergo an ethical training program (or repeat the firm's ethical training program) to foster better understanding of the firm's ethical standards. Finally, managers can develop a system to reward desired ethical behavior. Customer-specific ethical behaviors can be rewarded via a bonus or incentive program that is tied to customer satisfaction ratings or actual customer ratings of the firm's ethical performance.

Employees are also more likely to internalize the firm's ethical code when there are open discussions about ethical issues at work. Although this process is informal and largely driven by the employees themselves, managers can take steps to actively promote the discussion of ethics. For example, managers must ensure that ethical training is a part of the organizational socialization process. Training can occur through formal sessions, workshops, or brown-bag sessions dealing with ethical issues. Informally, managers must be willing to discuss ethical issues themselves and not be fearful of raising these issues at work. Manag-

ers should recognize that the best way to promote ethics at work is to be mentors and role models for their employees. Managers who consistently exhibit and support ethics and integrity can communicate more to their employees than any formal training session (cf. Ferrell and Gresham 1985). Each of these approaches is consistent with learning and socialization theory with respect to the importance of reinforcement and communication, which can lead to increased ethical awareness and learning within the firm (Allen and Meyer 1990).

Code enforcement and the discussion of ethics have additional beneficial effects that are consistent with the service profit chain concept. For example, both types of control increase employee job satisfaction. Code enforcement sets boundaries for expected behavior, thereby providing employees with more knowledge of role expectations that leads to increased satisfaction (Dubinsky et al. 1992; Weeks and Nantel 1992). The discussion of ethics sets the stage for code internalization via interpersonal communication and socialization processes (Grundstein-Amado 2001). As a result, employees feel more satisfied with their jobs due to the sense of belonging and group association resulting from these processes. This reasoning also explains the relationship between the discussion of ethics and reduced role ambiguity. Shared communication about ethics can help to transform ethical learning into ethical meaning (cf. Thomas, Kellogg, and Erickson 2001). The resulting increase in ethical knowledge reduces ambiguity as employees become more certain of how to fulfill their roles in the face of ethical dilemmas (West and Meyer 1997). In the context of service delivery, reducing role ambiguity is critical. Because role ambiguity lowers job satisfaction and impedes the ability of employees to deliver good service, it can have a profound impact on customers' perceptions of service quality (Hartline and Ferrell 1996).

Creating an Ethical Climate

Unethical behavior in any organization is a serious concern. In many studies, researchers have consistently shown that a large percentage of employees feel pressure to behave unethically or have actually engaged in unethical—and sometimes illegal—activities to meet business objectives (Ethics Resource Center 2000). As a result, many firms have taken steps to create a more ethical climate by enacting and enforcing codes of ethics, policies, and directives that specify, discourage, monitor, and correct unethical behavior. These initiatives are important given the need to practice ethical principles to develop long-term customer relationships (i.e., relational marketing exchanges) (Gundlach and Murphy 1993). However, they have become even more critical under the provisions of the *Federal Sentencing Guidelines*, which state that a company can receive reduced fines for ethical lapses if they have taken steps to develop an effective program to detect and prevent potential violations of law (United States Sentencing Commission 2004). Furthermore, the need to comply with the Sarbanes-Oxley Act of 2002—legislation regulating corporate governance, disclosure, and financial accounting—provides organizations with an additional impetus to promote an ethical climate.

Our results suggest that while these steps toward an ethical climate are important, they may not be enough to fully control ethical behavior or promote customer-oriented responses among employees. Specifically, our findings indicate that the firm's ethical climate is primarily a function of code internalization and the use of punishment for ethical violations. Previous research has shown repeatedly that organizational socialization has a profound effect on employees' attitudinal and behavioral responses (cf. Allen and Meyer 1990; Jones 1986). Our findings extend this work by indicating that the stated goal of all socialization programs—internalization of the firm's norms, values, or codes—is a critical stepping stone toward achieving desirable responses among the firm's employees. In terms of ethical control, code internalization may be the linchpin that connects formal, management-initiated polices and directives to employee- and group-initiated responses. Code internalization is likely to produce an environment where ethical values are fostered, supported, and shared among employees (Vardi 2001; Wimbush and Shepard 1994). And, when the understanding that the firm will punish employees for ethical lapses reinforces this environment, the firm's ethical climate (and ultimately its service profit chain) is likely to be strengthened. Thus, to create a more ethical climate, managers should take steps to enhance code internalization by actively socializing employees on ethical expectations, enforcing ethical codes, and promoting the open discussion of ethics on the job, as previously discussed. Managers should also not be reticent to punish employees who violate the firm's ethical standards. In particular, managers should be ready to punish employees for unethical behaviors that violate customer trust and undermine the customer orientation of the firm.

Managers can choose among a range of options when punishing employees for ethical violations. For first-time offenses, managers can use warnings, formal reprimands, or permanent letters in an employee's personnel file. Punishments for continued transgressions might include withholding pay raises or bonuses, appearing before an ethics panel or committee, mandatory ethics training, or a temporary suspension without pay. Employees who are responsible for developing customer relationships and trust should be dealt with more aggressively than employees

who work behind the scenes. However, regardless of an employee's level of interaction with customers, those employees who repeatedly exhibit unethical behaviors should be terminated. Unethical behavior tends to breed additional transgressions. Hence, removing unethical employees from the work setting eliminates their influence on the ethical behaviors of others (Ferrell and Gardiner 1991). Furthermore, employees who interact with customers on a regular basis should not be allowed to repeatedly engage in unethical behaviors. Customer relationships are fragile, and any hint of impropriety can jeopardize a relationship forever.

Punishing ethical violations is also important because it can reduce employee role conflict. As a means of formal control, the firm's use or threat of punishment establishes its ethical climate and clearly articulates the types of behavior that will not be tolerated (Sims 1994; Trevino 1986). As a result, the firm can control the number and severity of ethical dilemmas—one of the most important sources of role conflict (Chonko and Burnett 1983). Hence, employees will experience less role conflict because they face fewer ethical dilemmas and have learned to avoid unethical behaviors that can lead to reprimands or punishments (Hegarty and Sims 1978; Nielsen 2000).

Enhancing Employee Job Responses

While code internalization and ethical climate reduce role conflict (directly) and role ambiguity (indirectly), their effects differ with respect to job satisfaction and commitment to service quality. In addition to its influence on role stress, the primary outcome of an ethical climate is increased job satisfaction, whereas the primary outcome of code internalization is increased employee commitment to service quality. The link between ethical climate and job satisfaction is logical in the context of the service profit chain. Other than making the organization a better place to work, a more ethical climate establishes norms and boundaries for expected employee behavior, thereby lessening any value inconsistencies among employees or work groups (Dubinsky et al. 1992; Weeks and Nantel 1992).

The link between code internalization and commitment to service quality is perhaps the most important relationship in our model. Virtually all ethical codes contain directives regarding how customers are to be treated. However, simply having directives for customer-oriented behavior is not enough to ensure that employees adopt and implement those directives in their daily activities. Our results suggest that both formal and informal controls must be in place for this to occur. The firm must enforce the ethical code, and the employees must internalize the ethical code. When these controls come into alignment, employees are more likely to exhibit customer-oriented responses—like commitment to service quality—as they internalize and accept the values espoused in the ethical code as their own (Jaworski 1988). An added benefit of this alignment is that code enforcement (directly) and code internalization (indirectly) increase employee job satisfaction, which is cited as one of the most critical ingredients to the successful delivery of service quality (cf. Hartline and Ferrell 1996). As a result, the alignment of code enforcement with code internalization may be one critical means of controlling the ethical behavior of customer-contact service employees by reducing their willingness and opportunity to engage in unethical behaviors (Babin, Boles, and Robin 2000).

LIMITATIONS AND AVENUES FOR FUTURE RESEARCH

Our findings underscore the significance of ethical control, code internalization, and ethical climate in enhancing the employee job responses that lead to superior service quality. Research has shown consistently that employees who experience less role stress, are satisfied with their jobs, and are committed to providing quality service will perform at higher levels than those who experience high stress, low job satisfaction, and little or no commitment (cf. Hartline and Ferrell 1996; Singh 2000). This improved performance will be noticed by customers and reflected in their perceptions of the firm's service quality (Hartline and Ferrell 1996). On the basis of the relationships demonstrated within our model, we argue that issues of ethical control and code internalization are important considerations in the management of customer-contact service employees, the service encounter, and the delivery of high-quality services. It is in this vein that we offer avenues for future research. Before discussing our research suggestions, we note the limitations of the present study.

Limitations

Although our focus on a single industry has certain advantages, it is reasonable to assume that the impact of ethical control and ethical climate might be unique to the service context under investigation. One potential setting where our study's results might differ is that of professional services (e.g., lawyers, accountants, doctors, marketing researchers) where service providers often ascribe to external professional or industry codes. Even though the control process is likely to be quite similar, code internalization could be more difficult to achieve when the code originates from a third party rather than from within the firm. It is also possible that the firm's ethical climate will have differential effects based on whether employees are

geographically concentrated or dispersed in the field. Concentrated employees are more likely to be aware of their firm's code of ethics, to discuss ethical situations with their coworkers, and to be more cognizant of their firm's stance on punishment for ethical lapses.

A related issue deals with variation across service settings. The relationship between ethical control and employee job responses is likely to be moderated by a number of factors, including the nature of the service task (complex vs. simple), the type of service process (routine vs. nonroutine), or the degree of customer contact (low vs. high). Ethical control could potentially be more problematic in complex, nonroutine, and/or high-contact services simply because there is a greater opportunity to engage in unethical behavior. Consequently, ethical control in these settings would tend to favor the use of informal controls. The results of our study indicate that both formal and informal controls are essential to the ethical control process. We note that our study examines employee perceptions across a variety of service positions (i.e., front desk, food service, housekeeping, bell staff)—each varying in the nature of the service task, process, and degree of customer contact. In the sense that our study focuses on management's ability to control the ethical climate and influence the ethical behavior of customer-contact employees, we believe that the results of our study can be applied to most services. However, the potential for differences in ethical control across a range of service tasks or processes cannot be ignored. Obviously, further research is needed to uncover the moderating effects of these factors.

Third, we note that ethical codes vary across firms and industries, with some firms placing greater emphasis on service quality or customer service vis-à-vis other elements of ethical conduct (e.g., conflict of interest, fiduciary responsibility). Because our operationalization of code internalization does not consider the specific content of the code itself, our results do not assess how employees interpret the code's content. However, our examination of code internalization and acceptance is consistent with control theory and our focus on service delivery. In order for the code to shape employees' values or modify their behaviors, employees must internalize and accept the code as a norm or rule of behavior within the firm (Grundstein-Amado 2001; Jaworski 1988). This principle of control theory is also consistent with socialization theory. In fact, our examination of an individualized outcome such as code internalization goes beyond previous studies in organizational socialization that have looked primarily at socialization stages or tactics (cf. Allen and Meyer 1990; Jones 1986). Inasmuch as the acceptance of organizational norms and values is the raison d'être of employee socialization, our examination of code internalization is appropriate.

Fourth, the constraints imposed on our research by the participating firms forced us to rely on managers to distribute the surveys to employees. We recognize that this limitation could bias the research design if the managers did not distribute the surveys randomly. Although we noted no bias in the distribution of the surveys, the possibility exists that managers gave the surveys to their "best" employees. However, because the managers did not know the aim of our study beforehand, they had no substantive reason to distribute the surveys in this manner. Furthermore, we were not able to contact any nonrespondents to test for bias in the distribution of surveys. A time-trend extrapolation test (Armstrong and Overton 1977) with respect to the constructs used in our study indicated that the likelihood of this bias is remote.

Finally, ethics research is conducive to socially desirable responses. However, our study assesses employees' perceptions of their firm's ethical environment, not their individual ethical behavior. As such, the impact of socially desirable responses should have been lessened. Furthermore, each respondent was promised anonymity, which has been shown to reduce socially desirable responses (cf. Randall and Fernandes 1991).

Future Research

Our study could be replicated within other contexts, especially professional services. In these settings, where contact employees have chosen the service position as a career or where employees ascribe to a professional code of conduct, the effects of ethical control and code internalization may be quite different. For example, a firm's use of punishment for ethical violations may have a much stronger effect in professional settings where punishment is associated with fines or career-ending sanctions (e.g., legal and accounting services). However, code internalization and climate may have less impact in other service professions, such as public service (i.e., law enforcement, politics), where the opportunities and pressures to engage in unethical actions are often too great. In these situations, the employee's own morality may play a more prominent role (cf. Ferrell and Gresham 1985). Additional research could investigate the role of ethical control among high-customer-contact and low-customer-contact employees. Whereas our study examines moderate- to high-contact employees, the effects of ethical control may be less pronounced among service employees having little contact with customers. These "backstage" employees may face fewer pressures to violate ethical standards because they do not serve the demands of both customers and the firm.

Second, future research could examine more closely how employees internalize codes of ethics. Of particular interest is how employees interpret and understand the

content of the code. Our results suggest that, much like the effect that the discussion of ethical issues has on code internalization, ethical discussions may play a role in the interpretation and understanding of the code's content. How can managers ensure that employees understand the code's content? Does formal or informal discussion have a greater impact on code internalization, interpretation, and understanding? What role, if any, should management have in stimulating or leading these discussions? Ethics training could also be examined, including a determination of the ethical issues that generate the most effective discussion and learning among employees.

Third, researchers could examine the types of enforcement and punishment that result in greater code internalization and enhanced perceptions of the firm's ethical climate. Our findings indicate that code enforcement enhances code internalization and employees' job satisfaction. What is the best process for enforcing codes of ethics? Who should be responsible for code enforcement, management, or the employees themselves? Furthermore, our findings indicate that punishment for ethical violations enhances the firm's ethical climate and reduces employees' role conflict. What forms of punishment should be employed? Should employees be terminated, receive a strong reprimand, or have their pay docked? Should the punishment vary depending on the ethical violation in question? Research indicates that strict punishment may not always be the best means of resolving ethical conflicts and promoting an ethical climate (Nielsen 2000). Consequently, the implications for punishment and how it affects future performance and turnover intentions could be important issues for service providers and researchers.

Finally, future research could examine how customers and managers influence ethical control when information asymmetry is present in the customer-contact setting. For example, in situations where customers do not understand the service process or their role in service delivery (e.g., credence-dominant services) or management does not adequately fulfill its role (e.g., laissez-faire management), employees could have greater opportunities to engage in unethical behaviors. The effects of this information asymmetry should be attenuated when customers and managers fully understand their roles in the service process. Furthermore, customers' awareness (or lack of awareness) of the firm's code of ethics and ethical climate might also influence employees' opportunities to engage in unethical behaviors. Ethical principles such as equity, trust, fairness, responsibility, and commitment are important for the development of relational marketing exchanges (Gundlach and Murphy 1993). As a result, customers' perceptions of the firm's ethical control system could potentially affect the willingness of these customers to do business with the service provider.

APPENDIX

Our use of single-item measures for the enforcement, punishment, and discussion of ethical codes was based on several considerations outlined by Drolet and Morrison (2001). First, preexisting measures did not exist for these constructs. Second, our research suggested that the meanings of enforcement, punishment, and discussion of ethics were relatively narrow in scope, easy to explain, and likely to be unambiguous to respondents (cf. Wanous, Reichers, and Hudy 1997). Furthermore, we were concerned about asking repetitious questions on topics that respondents might not disclose freely. The use of single-item measures alleviated this concern as well as additional concerns over questionnaire length and respondent fatigue. To resolve the issue of reliability for these single-item measures, we conservatively estimated the reliability of each indicator as explained below.

Measure Validation

We analyzed the data using PRELIS to create a covariance matrix with pairwise deletion. This matrix was used as input to LISREL where the completely standardized solution was requested (Jöreskog and Sörbom 1993). In the initial stage of the analysis, several items were deleted from the scales due to nonsignificant *t*-values. This item-deletion procedure has been suggested as a method for respecifying indicators that do not "work out" (Anderson and Gerbing 1988). For the remaining items, all *t*-values exceed 2.00, thus meeting this criterion for convergent validity (Anderson and Gerbing 1988). These results are provided in Table A1.

Discriminant validity was assessed by performing one-at-a-time chi-square difference tests (the Φ coefficient was constrained to 1.00) for the largest (magnitude of .60 or larger) cross-construct correlations. We also examined the 95% confidence interval (CI) to ensure that the correlation plus or minus two standard errors did not include the value 1.00 (Anderson and Gerbing 1988). The largest correlation occurred between role conflict and role ambiguity ($\Phi = .699$, $\chi^2_{diff} = 543.52$, 5 *df*, CI = .645 to .753). Two other correlations were greater than .60 in magnitude: code internalization and ethical climate ($\Phi = .659$, $\chi^2_{diff} = 155.99$, 5 *df*, CI = .583 to .735) and code internalization and job satisfaction ($\Phi = .648$, $\chi^2_{diff} = 222.37$, 5 *df*, CI = .576 to .720). In each case, the increase in chi-square exceeded the critical value by a wide margin ($\alpha < .001$), and no confidence interval contained the value 1.00. These results provide evidence for the discriminant validity of the measures.

Before estimating the hypothesized model, we summed and averaged the items in each scale to create a summed-scale indicator for each construct. Each indicator was standardized ($M = 0$, $SD = 1$) to account for scale differences. To account for measurement error, each λ coefficient was fixed at the square root of its construct reliability, and each θ_δ coefficient was fixed at one minus the construct reliability (cf. Anderson and Gerbing 1988). For each single-item construct (enforcement, discussion, and punishment), we adopted the procedures recommended by Anderson and Gerbing (1988) for single-item measures. The λ coefficient was conservatively fixed at .90, and the θ_δ coefficient

TABLE A1
Confirmatory Factor Analysis Results

Variables and Items	*Factor Loading*	t-*Value*
Internalization of ethical codes		
1. My organization has a code of ethics	.769	19.06
2. I never see or hear the code of ethics mentioned at work (–)	.548	12.66
3. The code of ethics confuses me (–)	.534	12.28
4. I accept the contents of the code of ethics in my work life	.673	16.18
Perceived ethical climate		
1. Top management does not support ethical behavior at work (–)	.524	12.07
2. There is not much support among my coworkers for honesty at work (–)	.646	15.53
3. I know of a customer who was cheated (–)	.597	14.09
4. I think my organization is more interested in making money than in meeting customers' needs (–)	.599	14.15
5. I have seen people I work with do dishonest things at work (–)	.606	14.35
6. Some of my coworkers do not support the idea that customers should be treated fairly (–)	.549	12.76
7. Our field is so competitive that we have to do some unethical things at work just to stay in business (–)	.559	13.03
Role conflict		
How much agreement is there between you and your job on		
1. The amount of work you are expected to do and the amount of work you actually do (–)	.466	10.96
2. The number of customers you are expected to serve and the number of customers you actually serve (–)	.503	11.98
3. The number of nonwork tasks you are expected to perform and the number of nonwork tasks you actually perform (–)	.424	9.88
4. The amount of leisure time you expect to have and the amount of leisure time you actually have (–)	.329	7.51
How much agreement is there between you and your supervisor on		
5. How often you should report to your supervisor (–)	.595	14.62
6. How far you should bend the rules to satisfy customers (–)	.508	12.10
7. How much service you should provide to customers (–)	.627	15.62
8. How much authority you have in making decisions (–)	.535	12.85
How much agreement is there between you and your customers on		
9. Your performance in serving customer needs (–)	.682	17.38
10. How much service you should provide to customers (–)	.696	17.86
11. How you resolve customer complaints (–)	.651	16.36
12. How far you should bend the rules to satisfy customers (–)	.488	11.55
Role ambiguity		
How certain are you about		
1. How best to serve customers (–)	.580	14.55
2. How much time you should spend on various aspects of your job (–)	.640	16.43
3. How to resolve customer complaints (–)	.579	14.49
4. How to fill out required paperwork (–)	.495	12.06
5. How to plan and organize your daily work activities (–)	.603	15.25
6. How to handle unusual problems or situations (–)	.685	17.94
7. Where to get assistance in doing your job (–)	.496	12.09
8. The extent to which you can bend the rules to satisfy customers (–)	.521	12.78
9. The extent to which you can make decisions without your supervisor's approval (–)	.559	13.89
10. Your company's rules and regulations (–)	.619	15.75
11. How your supervisor will evaluate your performance (–)	.694	18.25
12. How satisfied your supervisor is with your performance (–)	.685	17.96
13. The aspects of your work-related training (–)	.679	17.73
14. The factors that determine your promotion and advancement (–)	.601	15.20
15. How your supervisor expects you to allocate your time (–)	.714	18.98
16. How satisfied your customers are with your performance (–)	.642	16.50
17. What your customers expect of you in performing your job (–)	.662	17.16
Job satisfaction		
1. Your overall job	.620	15.26
2. Your fellow workers	a	
3. Your supervisor(s)	.629	15.54
4. Your organization's policies	.750	19.57
5. The support provided by your organization	.830	22.53
6. Your salary or wages	a	
7. Your opportunities for advancement with this organization	.625	15.40
8. Your organization's customers	a	

(continued)

TABLE A1 (continued)

Variables and Items	*Factor Loading*	t-*Value*
Employee commitment to service quality		
1. I feel strongly about improving the quality of my organization's services	.521	12.36
2. I enjoy discussing quality-related issues with people in my organization	.601	14.67
3. I gain a sense of personal accomplishment in providing quality services to my customers	.756	19.78
4. I completely understand the importance of providing high-quality services to our customers	.698	17.75
5. I often discuss quality-related issues with people outside of my organization	a	
6. Providing high-quality services to our customers should be the number one priority of my organization	.570	13.74
7. I am willing to put in a great deal of effort beyond that normally expected in order to help my organization deliver high-quality services to our customers	.710	18.16
8. The way I feel about quality is very similar to the way my organization feels about quality	a	
9. I really care about the quality of my organization's services	.682	17.24

Fit statistics: $\chi^2_{1259} = 4{,}525.73$, $p = .000$, Goodness-of-Fit Index (GFI) = .730, Adjusted Goodness-of-Fit Index (AGFI) = .704, root mean square residual (RMSR) = .084

a. Item was dropped during confirmatory factor analysis due to a nonsignificant *t*-value. Negative signs (–) indicate reverse scoring.

TABLE A2
Measure Correlations, Means, and Standard Deviations

Measure	M	SD	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*
1. Enforcement	5.12	1.45								
2. Punishment	5.13	1.64	.28							
3. Discussion	4.28	1.74	.36	.17						
4. Internalization	5.13	1.11	.64	.25	.35					
5. Ethical Climate	5.29	1.18	.46	.23	.19	.52				
6. Role Conflict	2.03	0.57	–.31	–.20	–.19	–.33	–.31			
7. Role Ambiguity	2.02	0.60	–.28	–.12	–.24	–.28	–.21	.60		
8. Job Satisfaction	3.76	0.76	.53	.27	.32	.47	.46	–.40	–.39	
9. ECSQ	4.46	0.46	.34	.26	.19	.36	.29	–.46	–.39	.37

NOTE: All correlation coefficients are significant at the $p < .01$ level. ECSQ = employee commitment to service quality.

was fixed at .19 (these coefficients correspond to an estimated reliability of .81). The means, standard deviations, and correlations among the measures are reported in Table A2.

Tests for Common Methods Bias

To further validate the measures, we conducted several tests to determine the potential biasing effects of common methods variance (Podsakoff et al. 2003). First, a single-factor test revealed that the 52 items in the study load on 10 separate factors, with the first factor accounting for only 23.8% of the variance in the items. Second, a repeat of the single-factor test using confirmatory factor analysis revealed that the 52 items do not load on a single factor. The fit statistics for this model ($\chi^2_{1274} = 7{,}563.15$, $p = .000$, Goodness-of-Fit Index (GFI) = .543, Adjusted Goodness-of-Fit Index (AGFI) = .506, root mean square residual (RMSR) = .157) are significantly worse than the CFA results reported in this appendix. Finally, in a more stringent test, we examined our final structural model by allowing all items to load on a single first-order methods factor in addition to their theoretical constructs. The structural parameter estimates from this model differed from those reported in our final model by no more than .008 (most were the same or varied by only .003). Likewise, none of the *t*-values changed enough to alter the results of our hypothesis tests. Furthermore, the fit statistics for this model ($\chi^2_{17} = 23.69$, $p = .128$, GFI = .990, AGFI = .973, Comparative Fit Index (CFI) = .995, Parsimony Normed Fit Index (PNFI) = .464, RMSR = .023) are similar to the results reported in Table 3. In this most stringent of tests, the results suggest that common methods bias does not affect the parameter estimates reported herein.

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Charles H. Schwepker Jr. (Ph.D., University of Memphis) is a professor of marketing at Central Missouri State University. He has experience in wholesale and retail sales. His research interests are in sales management, personal selling, marketing ethics, and consumer behavior. His articles have appeared in the *Journal of the Academy of Marketing Science*, the *Journal of Public Policy and Marketing*, the *Journal of Personal Selling & Sales Management*, the *Journal of Business Research*, *Industrial Marketing Management*, and the *Journal of Business Ethics*, among other journals, various national and regional proceedings, and books including *Marketing Communications Classics*. He is a coauthor of *Sales Management: Analysis and Decision-Making*, 5th ed. (Thomson-Southwestern Publishing, Inc., 2004) and *Professional Selling: A Trust-Based Approach,* 2nd ed. (Thomson-Southwestern Publishing, Inc., 2004).

Michael D. Hartline (Ph.D., University of Memphis) is an associate professor of marketing in the College of Business at Florida State University. His research focuses on the management of customer-contact employees and other implementation issues in service firms. His research appears in the *Journal of Marketing*, the *Journal of Service Research*, the *Journal of Business Research*, the *Journal of Services Marketing*, the *Cornell Quarterly*, the *Journal of Relationship Marketing*, the *Journal of Strategic Marketing*, the *Journal of Business Ethics*, and the Marketing Science Institute Working Paper Series. He is also coauthor of *Marketing Strategy,* 3rd ed. (Thomson-Southwestern Publishing, Inc., 2005).