

ORIGINAL RESEARCH ARTICLE

The Influence of Formal and Informal Ethical Systems on Employees' Unethical Decisions

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Abstract

This paper examines the effect of formal (e.g., codes of conduct [COC] and punishment) and informal (e.g., peer behavior) ethical systems on employees' unethical intentions. Previous studies disagree about the effectiveness of COC and punishment policies on individuals' unethical intentions. Moreover, there is not much research regarding the interactive effects of formal and informal norms in organizations on unethical behavior and how employees decide when there is incongruence between formal and informal ethical systems. To investigate this, we propose the following research question: What is the effect of distinct formal (implicit and explicit COC and strong and weak punishment policies) and informal (peers' ethical and unethical behaviors) ethical systems on individuals' unethical decisions? The results of an exploratory qualitative study ($N=275$) and an experimental study ($N=374$) demonstrate that (1) peer behavior has the strongest effect on individuals' unethical intentions; (2) punishment and clear COC combined are effective in reducing unethical intentions when peers behave unethically; however, in these contexts, rules are ineffective when not supported by punishment policies, and punishment can be counterproductive when rules are implicit or nonexistent. Our study contributes to the literature on ethical decision-making by showing how combinations of formal and informal ethical systems influence unethical intentions. It also offers valuable recommendations to managers on reducing unethical behavior in companies.

Keywords: *Formal and informal ethical systems; Social norms; Ethical decision making; Punishment*

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Over two decades ago, Tenbrunsel et al. (2003) bemoaned the fact that unethical behavior in organizations was highly prevalent and that the ethics programs in place, including formal codes, showed mixed results in fostering ethical behavior. The last 20 years have not fared much better, with unethical behavior in and by corporations regularly appearing in the press in various sectors. Examples include cryptocurrency giant Binance, which has been criminally prosecuted in the US for fraud and money laundering (Lee & Chafkin, 2022), Chinese-based company Luckin Coffee, which fraudulently inflated its sales to boost its share price on the stock market (McGregor, 2022), the selling of unsafe opioids to patients by Purdue Pharma (Fritze & Cole, 2024) and biotech startup Theranos, whose founders were convicted of defrauding investors by lying about a technology that supposedly detected diseases from a few drops of blood (Griffith, 2022).

Employees are frequently under pressure to act unethically, and workplace misconduct is higher than ever (Ethics & Compliance Initiative, 2023). To reduce unethical behavior, firms deploy a number of tools to ensure their employees understand and follow corporate strategy and policy regarding expected ethical behavior. In particular, they may formalize a set of rules or norms in written codes of conduct (COC) (Babri et al., 2021; Kaptein & Schwartz, 2008) or use rewards or punishment (Podsakoff et al., 2006) to reinforce the rules. However, these formal measures have produced inconsistent results because they are contingent on complex interactions between their characteristics in terms of how the rules are written, implemented, and enforced (Erwin, 2011; Jannat et al., 2022; Kaptein, 2011b; Kaptein & Schwartz, 2008) and the degree to which they are in harmony with other policies and programs enacted in diverse organizations (Ruiz et al., 2015; Treviño et al., 1998).

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In parallel, academic research in the last two decades has continued to throw up mixed results regarding the effectiveness of ethics programs (Jannat et al., 2022; Kaptein, 2011b). The literature points out different explanations for these inconsistencies. For example, COC sometimes do not clearly outline expected behaviors (Schwartz, 2004) or are not backed up by policies defining sanctions for deviant behaviors (Jannat et al., 2022); therefore, they may not be taken seriously by employees (Slaughter et al., 2020). As regards the organizational context, employees receive informal signals from other members of their organization about what is truly appropriate regarding ethical and unethical behaviors; however, these are sometimes inconsistent with the formal rules (Smith-Crowe et al., 2015). Consequently, formal measures are not always effective in reducing unethical behavior, as their effect depends on other informal aspects of the organization.

Tenbrunsel et al. (2003) suggest that the effectiveness of formal ethical norms depends on informal elements or the 'real rules' of the organization, such as coworker behaviors, promotion patterns, and rule enforcement and, at a broader level, by the organizational climate, which is characterized by the shared perceptions and expectations of members of the organization about appropriate behavior. Since individuals want to be accepted by their counterparts, they consider the group's general perceptions of what the right course of action is as a signal of how they should behave and adapt their own behavior accordingly (Treviño et al., 1998). The organizational climate and the informal ethical systems mutually influence each other, and what individuals consider to be normally acceptable in an organization, together with the behavior of other employees or whether policies are actually enforced, affect individuals' perceptions of COC and sanction policies, as well as their own ethical decisions.

In summary, despite strong evidence of the influence of formal and informal ethical norms on ethical behavior (e.g., Smith-Crowe et al., 2015), there is little research on the interactive effects of formal and informal norms on unethical behavior, and how employees decide when there is incongruence between these two ethical norms. This paper aims to fill this gap by examining the interactive effect of formal and informal ethical norms on individuals' unethical intentions. We propose that when the informal system is ethical (e.g., peers behave ethically), individuals will follow peer behavior, and the role of formal rules and sanctions will be minimal. On the other hand, when the informal system is unethical (e.g., peers behave unethically), employees will turn to the organization's formal ethical systems. In such contexts, explicit COC and strong sanction policies reduce unethical decisions. We therefore propose the following research question: How do distinct formal and informal ethical systems influence individuals' unethical intentions?

We deployed two studies: (1) A qualitative study to examine the reasons why individuals make unethical decisions in

different scenarios of peer behavior; COC, and sanctions and (2) an experimental study to identify the effect of distinct levels of COC and sanctions on individuals' unethical intentions in contexts of ethical and unethical peer behaviors. Our findings show that peer behavior is the main element that influences individuals' unethical purposes. Furthermore, a combination of clear rules and sanctions can deter employees from unethical intentions in contexts where peers behave unethically. However, clear COC without sanctions are not effective, and sanctions that are not backed up by rules can even produce counterproductive results.

Our results contribute to the literature on the effectiveness of formal norms in organizations, focusing on COC (Jannat et al., 2022; Kaptein, 2011b; Singh et al., 2011) and sanctions (Frey et al., 2023; Kaptein, 2015; Treviño, 1992). Previous work has studied and compared the effects of numerous elements of ethical programs on ethical behavior (Erwin, 2011; Jannat et al., 2022; Kaptein & Schwartz, 2008; Singh, 2011). Our study addresses one aspect of the code (clarity of code on gift giving) and the level of sanctions associated with its enforcement. We also consider contexts of varying informal ethical systems (peer behavior) and use a qualitative and an experimental approach. By so doing, we provide some unexpected results on how these factors interact to reduce or increase unethical behavior; thus contributing to the literature on understanding why COC and sanctions may not always be effective.

The organization's ethical infrastructure

Formal and informal ethical mechanisms form an organization's ethical infrastructure, in which the formal is embedded in the informal, and in an interrelated way, both influence individuals' ethical behaviors (Tenbrunsel et al., 2003; Victor & Cullen, 1988). While formal ethical systems refer to documented elements, such as COC, work procedures, and sanction policies, informal ethical systems are the unwritten rules and norms, or 'what people really think and how they really behave' (Treviño, 1990) and include elements such as group pressure and peer behavior.

The effect of formal and informal systems on individuals' ethical responses can be examined through the lens of social norms (Adam & Rachman-Moore, 2004). Social norms are defined as 'rules and standards that are understood by members of a group, and that guide and/or constrain social behavior without the force of laws' (Cialdini & Trost, 1998, p. 152). These rules may be formally expressed in the form of regulations, such as COC and sanction policies, or informally defined from the way individuals in one's social group behave in certain situations (Cialdini & Goldstein, 2004).

Research has repeatedly shown that informal norms have a strong, pervasive effect on individual behavior in organizations (Bauman et al., 2016; Fehr & Fischbacher, 2004;

Lieberman et al., 2019), and employees will tend to mimic or conform to the general behavioral rules in their firm, regardless of whether they are formalized by laws or policies (Bicchieri & Xiao, 2009). However, there is not much research regarding the interactive effects of formal and informal norms in organizations on unethical behavior and what happens when there is incongruence between the behavior that an employee observes and the rules and policies set out by the organization.

Regarding formal norms, while ethical COC are one of the most used mechanisms to reduce unethical behavior in organizations, evidence of their effect on reducing unethical behavior is mixed. One stream of research has investigated the design and wording of the code itself (Erwin, 2011; Kaptein & Schwartz, 2008), suggesting that concreteness or clarity of the rules, their positive or negative tone, or the specificity of the objectives set out are all more likely to increase COC effectiveness. Another body of work has focused on implementation issues, such as top management support for the COC, the quality of the communication around the COC, and its positioning in a more general ethics program including elements such as training, monitoring, use of ethics-oriented performance evaluation, and enforcement through sanctions (Jannat et al., 2022; Kaptein, 2015; Ruiz et al., 2015). These studies all show that formal ethics policies are more effective in creating an ethical culture or reducing unethical behavior when there is coherence between the different elements of the program. Ruiz et al. (2015) suggest that a lack of coherence creates dissonance for employees that weakens the impact of ethics programs. A common aspect of the body of research on the effectiveness of COC is the importance of sanctions in ensuring that organizational members are held accountable for misconduct. For example, Slaughter et al. (2020) suggest that the effect of COC is reduced because of the lack of seriousness with which they are regarded, and to avoid this, companies should enforce codes by clearly stating the behaviors expected from employees and specifying sanctions for deviant behaviors.

The role of punishment in reducing unethical behavior

In organizational contexts, punishment is an important tool for maintaining control and protecting and enforcing organizational norms (Frey et al., 2023) and may include soft actions, such as verbal reprimands, as well as strong actions, such as terminating employees' contracts (Treviño & Weaver, 2011). Extant research shows broadly that sanctions can be effective in reducing unethical behavior if they are perceived as fair and are supported by other elements in an ethics program but lose their effectiveness when these conditions are not met (Neale et al., 2020). Our work contributes to these streams of research by examining support (or not) not only from a clear

rule of behavior (acceptance of gifts) but also from the observation of peer behavior; that is, interaction with informal norms.

The mechanism for how peer behavior and punishment might influence individuals' behavior can be explained by cognitive dissonance (Festinger, 1959), where people experience tension when holding two inconsistent cognitions concurrently or if their behavior is inconsistent with their cognitions. For instance, individuals perceiving incongruence between formal and informal norms will seek to reduce the psychological discomfort provoked by the gap between others' unethical behavior, which is inconsistent with strict sanctions policy. To reduce this tension, individuals may change their attitude to fit in with one of the cognitive states, shaping their norms to mimic those in their environment or engaging in post-hoc justification to enable reappraisal of the behavior; for example, rationalizing that 'because everyone is doing it, it must be OK' (Lowell, 2012).

Punishment policies may help enforce COC because they provide a clear message that the rules are not merely for show and thus reinforce the codes' legitimacy. The literature suggests that the desire to avoid punishment can have the effect of reducing unethical intentions (Arvey & Ivancevich, 1980). For example, Fehr and Fischbacher (2004) proposed that formal punishment policies and their degree of enforcement have an important effect on cooperation rates. More recently, Jannat et al. (2022) investigated the effect of multiple elements of ethics programs and concluded that only punishment and monitoring directly reduced unethical behavior. Overall, research across disciplines has repeatedly shown that punishment can promote cooperation (Balliet et al., 2011; Molenmaker et al., 2014). However, there is strong evidence that, to be effective, sanctions need to be perceived as just and appropriate (Mooijman & Graham, 2018; Neale et al., 2020; Podsakoff et al., 2006; Treviño, 1992) or they can backfire.

More importantly, in the context of this study, effective punishment policies must also be supported not only by other elements of an ethics program, such as explicit rules (Kaptein, 2011b), but also by an observation that ethical behavior is the norm among peers. Social norms and punishment are linked in that social norms are the result of shared perceptions of appropriate behavior and can thus be used as a reference for punishing (or rewarding) behaviors that are in opposition (or in accordance) with them (Bicchieri, 2006). Sanction mechanisms are considered as important determinants of social norms, as group members learn the nature of desirable behavior in their group from the information transmitted through rewards and/or punishment, and they produce an expectation that others will behave cooperatively (Shinada & Yamagishi, 2008). Conversely, when individuals receive signals of ineffective sanctioning systems from their environment, they behave less cooperatively (Tenbrunsel & Messick, 1999). The mechanism for this effect is that a signal of unenforced sanctions

provides an instrumental, economic framing effect, which leads individuals to display a heightened tendency to maximize their own self-interests.

The interactive effect of formal and informal ethical norms on unethical decisions

Research on the effectiveness of ethics policies (Frey et al., 2023; Jannat et al., 2022; Kaptein, 2015; Ruiz et al., 2015) emphasizes the importance of different elements of ethics programs supporting each other. We therefore suggest that when the two elements of formal norms are congruent with each other, such as a clear code and strong sanctions, they will reduce the effect of unethical peer behavior on unethical decisions. However, one of these formal norms alone will not be sufficient to reduce individuals' unethical intentions if it is not supported by the other. Moreover, as peer behavior is the strongest predictor of ethical behavior irrespective of the rules and policies in place (Bauman et al., 2016; Bicchieri & Xiao, 2009; Fehr & Fischbacher, 2004; Lieberman et al., 2019), we assume that formal norms will have little to no effect when peers behave ethically.

We thus propose the following hypothesis:

H1a: In contexts where peers behave unethically, explicit and consistent formal norms, such as clear COC and strong punishment, reduce individuals' unethical decisions.

H1b: When peers behave ethically, formal norms make no difference to individuals' unethical decisions.

Method and results

Overview of studies

To investigate the interactive effects of formal and informal ethical systems on individuals' ethical decision-making, we carried out two studies: an exploratory qualitative study and an experimental study. The exploratory study first identifies whether gift giving is a salient ethical issue as suggested by the literature (Dion, 2017), by inviting participants to reflect on whether and why they would accept or not a gift at work in the contexts described, finding that individuals indeed express a variety of moral reasoning about gift giving. It elicits the focal issues surrounding this issue in terms of social and informal norms that are then tested in study 2. The objective of the first study ($N=275$) is to understand and explore the rationale underpinning individuals' unethical decisions in different scenarios of peer behavior, COC, and punishment, as well as to qualitatively test the scenarios that will be used in study 2. The second study ($N=374$) aims to test the effect of different levels of COC and punishment on individuals' unethical intentions in scenarios of ethical and unethical peers' behaviors.

Study 1

In this study, we examine the reasoning behind respondents' decisions on whether to engage in unethical behavior, such as how they perceive and explain the relative effects of peers' behavior, COC, and punishment on their decisions to accept a gift from a supplier. We also analyzed respondents' understanding and credibility of the scenarios used in the two studies. The study was conducted using MTurk, a crowdsourcing website by Amazon¹ with 321 respondents of different nationalities, who were paid two US dollars (\$2.00) for their participation in the study. Of the 321 responses obtained, 46 were discarded because the participants had provided irrelevant or nonsensical answers, leaving 275 responses. We restricted the study to participants with an approval rate greater than 95% and who were approved in at least 100 other MTurk studies. They were also informed in the description of the study that writing in English was required.

Design and procedures

For this first study, we used an adapted qualitative experimental design (Robinson & Mendelson, 2012). Subjects were assigned to one of the combined scenarios of COC (clear vs. unclear), punishment (strong vs. weak), and peer behavior (unethical vs. ethical). COC were manipulated by informing participants about the company's code of conduct, which stated in a clear way that employees should return any gifts, hospitality, or payment they received from suppliers in the scenarios with clear COC. In scenarios with unclear COC, only more general aspects were mentioned, and the expected behavior about accepting gifts was not specified. To manipulate punishment, participants were informed either that the company would not tolerate any kind of violation to its rules, and if confirmed, violation (1) could result in termination of the work contract and/or penal actions (strong punishment) or (2) could lead to a verbal warning and specific training (weak punishment). To manipulate peer behavior, participants read that after 90 days working in the company, an employee, who was given the gender-neutral name Alex, realized colleagues accepted all types of gifts in scenarios with unethical peer behavior. The scenarios with ethical peer behavior stated that Alex's peers returned all gifts received.

Participants were also asked to imagine that this character named Alex was hired for a management position in a technology company and was in charge of selecting a new supplier. After having shortlisted three companies to be the new supplier, one of these companies sent Alex a gift, and Alex had to decide whether to keep the gift or to return it. The objective was for the respondents to project their own choices on the

¹. MTurk website: <https://www.mturk.com/>

decision of the character. They then estimated the likelihood Alex (based on a projective technique), or they themselves, would accept a gift from a supplier. This projective technique (asking what a third party would do) was used to overcome the bias of self-reports of socially (un)desirable behavior (Fisher, 1993) and to deal with the fact that individuals tend to underestimate the effect of social norms on their own behavior as suggested in the literature (Farrow et al., 2017). The vignettes used in the scenarios are in the Appendix. Subsequently, they were asked to respond to two open-ended requests: (1) 'Please write in the box below, in as much detail as possible, the reasons why you consider Alex would behave like that (minimum 300 characters)' and (2) 'Please write in the box below, in as much detail as possible, the reasons why you would behave like that (minimum 300 characters)'.

We analyzed the data using a theoretical thematic approach (Braun & Clarke, 2006) in a top-down fashion (Miles et al., 2014) to generate a set of initial codes. The two authors coded the responses from each scenario (2 × 2 × 2) progressively in parallel with each other; this allowed for discussions regarding interpretations and thereby enhanced the coding process. When agreement was reached on the content of the main categories, one researcher completed coding the remaining responses according to the agreed-upon coding scheme. Using N-Vivo, we coded extracts from the written responses into four nodes: (1) reasons for my accepting the gift, (2) reasons for my refusing the gift, (3) reasons for Alex accepting the gift, and (4) reasons for Alex refusing the gift. Each of these nodes had three subcategories: peer behavior, code of conduct, and punishment. A new theme arising from the analysis led to a fourth subcategory, personal values. Following this coding scheme, we drew up a codebook that assigned the relevant citations to each theme node as follows: (1) peer behavior, referring to colleagues, managers, company culture, relationships with the company and its stakeholders; (2) code of conduct, referring to the rules, company policy, COC, or being informed/told; (3) punishment, referring to punishment, disciplinary action, and risks or consequences such as losing one's job; and (4) personal values, comprising moral statements about moral/ethical beliefs and values; and instrumental statements about the monetary value or desirability of the gift and/or rewards and value of the job including future economic and career risk.

Results

Before proceeding with the main analysis, we checked whether the respondents had mentioned any misunderstandings or disbelief regarding the scenarios, which was not the case. We then carried out a brief content analysis by counting the most frequently used words regarding ethical decision-making. We eliminated words that had appeared in the scenarios

themselves, such as 'violate, violation'. The results showed that many respondents spontaneously mentioned 'bribes' or 'bribery' (144 occurrences) and 'moral', 'immoral', 'morality' (93) as well as 'ethical', 'unethical' or 'ethics' (94) indicating that accepting gifts in a work setting is seen as an ethical or moral issue. There were also 15 mentions of 'corrupt' or 'corruption' and 30 of 'favors' or 'favoritism'.

For the main analysis, we created three tables. In Table 1, we show the four themes (reasons for me accepting the gift, reasons for me refusing the gift, reasons for Alex accepting the gift, and reasons for Alex refusing the gift) and subthemes (peer behavior, code of conduct, and punishment) with illustrative verbatim extracts for the respondents exposed to unethical peer behavior, clear COC, and strong (Table 1a) and weak (Table 1b) punishment. These tables provide insights into the variability in the attitudes and beliefs concerning punishment in cases of clear COC and unethical peer behavior. Table 2 presents the findings for the same variables, but the difference is that the responses were in the condition of unclear COC. Table 3 examines the findings from participants exposed to clear versus unclear COC in conditions of ethical peer behavior for the cases of both strong and weak punishment. For this, we gathered the analysis of the four scenarios with the ethical peer behavior's condition. This was done because respondents cited very few reasons for accepting the gift under this condition. Thus, we concentrated on reasons for refusing the gift.

Unethical peer behavior and clear code of conduct. Analysis of themes of COC, peer behavior, punishment, and values

Reasons for accepting the gift

The most-cited reason for a third party (Alex) accepting the gift was peer behavior: everybody else was doing it; thus, there was no reason for Alex to act differently. Our analysis of the reasons given for the respondents themselves accepting the gift are perfectly in line with previous research showing individuals underestimate the power of informal norms, such as how others usually behave in a specific situation, on their own behavior (Cialdini, 2007; Farrow et al., 2017). First, we note there are fewer responses in all categories for reasons for me accepting the gift. Second, the analysis shows peer behavior is perceived as not very influential in the respondents' own decisions to accept the gift.

The results show that peer behavior has a strong effect on individuals' perceptions and decisions. Thus, in the condition of clear COC, and unethical peer behavior (Tables 1a and 1b), some participants spoke about the so-called unwritten rules and the culture of the company; thus, demonstrating they believe the observed behavior of others represents the true

Table 1a. Unethical peer behavior, clear COC, and strong punishment

	Reasons for accepting gift	Reasons for refusing gift
Strong punishment N=34	<p>COC statements (Me = 1; Alex = 4)</p> <p>I believe this code of conduct statement was released just to follow proper protocol.</p> <p>Peer behavior statements (Me = 3; Alex = 22)</p> <p><i>Following the general behavior</i></p> <p>Because he sees that the majority of his coworkers accept gifts.</p> <p><i>Maintaining good relations with others</i></p> <p>I don't think he would want to cause any rifts between himself and other managers.</p> <p>If I didn't take it, the others in the company would look down on me and think that I am a goody.</p> <p>There is an incentive for Peter to try to ride the wave with the rest of the managers instead of being a snitch and getting on everyone's bad side.</p> <p><i>Peer behavior leading to the perception of incongruent COC</i></p> <p>I think ALEX will consider accepting the phone because he's noticed nobody is following the code of conduct.</p> <p><i>Peer behavior leading to the perception of ineffective punishment</i></p> <p>You know the old saying: monkey see, monkey do. But monkey gets in trouble too. So if the others don't get caught he won't either.</p> <p>I believe that based on how Alex has viewed others within the company acting with regard to receiving gifts that he might view it as 'safe' to do, even though he directly violates the company policies.</p> <p>Punishment statements (Me = 4; Alex = 11)</p> <p><i>Punishment influencing the perception of the COC</i></p> <p>I think this would make ALEX feel like the rules about gifts were not really enforced very well.</p> <p>It seems that the rules in this company are not being enforced and everyone breaks them. It might be wrong but the company who has strict rules might have noticed that all in their company are accepting the gifts and might have taken some action.</p> <p>I would find it very frustrating that management is blatantly ignoring the rules and not being punished for it.</p> <p>He will think because nearly all of the other managers accept gifts and are obviously not punished for it – that the code of ethics for their company is purely for show.</p> <p>Moral (Me = 0; Alex = 0); instrumental values (Me = 5; Alex = 8)</p> <p>And who does n't want an iPhone X?</p>	<p>COC statements (Me = 13; Alex = 10)</p> <p><i>Violation of clear policy/(moral) duty to adhere to rules</i></p> <p>It is a violation of rules.</p> <p>The policy is very clear about gifts and the procedures surrounding them.</p> <p>Peer behavior statements (Me = 13; Alex = 0)</p> <p><i>Not following the general behavior</i></p> <p>Even though others in the company do accept gifts I would not do it.</p> <p><i>Loyalty/best interests of company</i></p> <p>It could severely damage my company's reputation should it get out.</p> <p><i>Personal reputation</i></p> <p>To show my employer that I am trustworthy.</p> <p>Punishment statements (Me = 13; Alex = 11)</p> <p><i>Risk of punishment/losing job</i></p> <p>I would be nervous to accept the gift because I may get in trouble.</p> <p>I would be afraid of losing my job for accepting the gift.</p> <p><i>Especially as new hire</i></p> <p>Alex is relatively a new hire and would think twice before accepting any gift from another company.</p> <p>Moral (Me = 17; Alex = 4); instrumental values (Me = 2; Alex = 1)</p> <p>I think it would be wrong; The money I would lose from losing my job isn't worth the price of the iPhone.</p>

Source: own elaboration, based on survey participants' verbatim. COC, codes of conduct.

rules. Similarly, they noted others break the rules without repercussions or sanctions, inferring Alex would not suffer any penalties. This indicated they considered their own observations of others represent the true picture of sanctions in the company, regardless of the stated severity of the punishment.

These twin notions are encapsulated neatly in the response of one respondent who said,

Alex may accept this gift, even though it is against the rules, is [sic] because he has been at the company for 90 days and has

Table 1b. Unethical peer behavior; clear COC, and weak punishment

	Reasons for accepting gift	Reasons for refusing gift
Weak punishment N=35	<p>COC statements (Me = 1; Alex = 1)</p> <p>The gift policy is quite likely an eyewash and show up to cover the actual company culture.</p> <p>Peer behavior statements (Me = 17; Alex = 37)</p> <p><i>Following the general behavior</i></p> <p>He's also got little reason not to, all the other managers accept gifts.</p> <p><i>Peer behavior leading to the perception of incongruent COC</i></p> <p>It seems to me that it is the unwritten culture of the company to accept gifts and not report them.</p> <p>He will think that even though it's a company policy, people are not really following that particular policy.</p> <p>I would probably follow the actual culture of the company, not just the policy.</p> <p><i>Maintaining good relations with others</i></p> <p>ALEX may think by accepting the gift that he is fitting in the work culture.</p> <p>Following the company's guidelines might actually destroy the work relationship between me and other managers. This can make work difficult. As a new employee within the company, integration and having allies is very important and it is the key to success.</p> <p>Punishment statements (Me = 5; Alex = 8)</p> <p><i>Weak sanctions</i></p> <p>If I'm caught, the punishment isn't that severe, I'd just get warned and possibly have to attend training, and I kind of suspect that might not even happen, since nobody is worried about it.</p> <p><i>Punishment leading to the perception of incongruent rules</i></p> <p>It was obvious for Alex that his colleagues have been breaking this rule, but there weren't any negative consequences for them.</p> <p>Moral (Me = 0; Alex = 0); instrumental values (Me = 3; Alex = 3)</p> <p>I really need a brand-new iPhone so I would want to take this. It is an expensive gift.</p>	<p>COC statements (Me = 6; Alex = 4)</p> <p><i>Violation of clear policy/(moral) duty to adhere to rules</i></p> <p>I would not accept the gift because I would not want to violate company policy.</p> <p>Peer behavior statements (Me = 10; Alex = 2)</p> <p><i>Not following the general behavior</i></p> <p>I would probably ultimately still decide to be the one person in the house who isn't corruptible.</p> <p><i>Loyalty/best interests of company</i></p> <p>That may negatively impact the company</p> <p><i>Personal reputation</i></p> <p>Also, I think people would think less of me if I didn't follow the rules.</p> <p>Punishment statements (Me = 13; Alex = 8)</p> <p><i>Risk of punishment/losing job despite weak sanctions</i></p> <p>The ramifications of not following the rules are not very harsh, but he hasn't been with the company that long. I think he will err on the side of being honest.</p> <p>I will be too scared to lose my job if I get caught.</p> <p><i>Especially as new hire</i></p> <p>Especially if I were still in my first 90 days at a company, which is usually the probation period where they determine if they are going to keep you or let you go. It would not be worth the risk.</p> <p>Moral (Me = 15; Alex = 3); instrumental values (Me = 0; Alex = 0)</p> <p>I do not find it morally good.</p> <p>I like to act on principle.</p>

Source: own elaboration, based on survey participants' verbatim.

COC, codes of conduct.

observed his fellow managers accepting all sorts of gifts without returning them or informing anyone about the gifts. I think this would make Alex feel like the rules about gifts were not really enforced very well and that he wouldn't get in trouble for accepting the iPhone.

A theme emerged in the analysis: participants cited instrumental reasons for both a third party and themselves accepting the gift. These mostly concerned the attractiveness and

value of the gift and the desire to possess it. This theme existed in all scenarios and indicated, no matter the context, a small minority will always display unethical behavior for instrumental reasons.

Finally, in the strong punishment condition, some statements about punishment indicated that respondents experienced a feeling of unfairness or outrage that sanctions are not being enforced. For example, 'I would find it very frustrating that

Table 2. Unethical peer behavior; unclear COC, and strong and weak punishment

	Reasons for accepting gift	Reasons for refusing gift
Strong punishment (+) N= 32	<p>COC statements (+) (ME= 3; ALEX= 12); (-) (ME= 4; ALEX= 11);</p> <p>(+) Although specifics aren't spelled out in the employee code of conduct guide as to gift taking, the fact ALEX has seen numerous other employees accept gifts on a regular basis makes me think he would accept the gift.</p>	<p>COC statements (+) (ME= 8; ALEX= 5); (-) (ME= 6; ALEX= 6)</p> <p><i>Violation of clear policy/(moral) duty to adhere to rules</i></p>
Weak punishment (-) N= 41	<p>(+) He would operate under the principle that it's more important to conform to the unwritten behavioral standards of his peers than to the written rules of the company.</p> <p>(-) The information in the paragraph does not state if receiving gifts are allowed. Peter will want to follow the rules but we don't know what they are. Peter may take the lead from his coworkers.</p> <p>(-) When there is just a rule in some dusty old rulebook that no one is even paying attention to, then there are very few people that would decline the gift.</p> <p>Peer behavior statements (+) (Me= 4; Alex= 27); (-) (Me= 14; Alex= 35);</p> <p><i>Following the general behavior</i></p> <p>The longer I was in the situation and the more often I witness it going on around me the more likely I would be to behave in this manner.</p> <p><i>Maintaining good relations with others</i></p> <p>The other managers may not trust Alex if he behaves differently than they do.</p> <p><i>Peer behavior leading to the perception of incongruent COC</i></p> <p>For me it is very simple. It does not matter to me that the written rules say not to do something, if people's actions contradict those rules then that is what I will follow.</p> <p><i>Peer behavior leading to the perception of ineffective punishment</i></p> <p>He would have seen others at the company do this and suffer no repercussions, so he would assume this is acceptable at this company.</p> <p>I believe that Peter would have accepted the gift because other managers have accepted gifts in the past without receiving any consequences.</p> <p>Punishment statements (+) (Me= 1; Alex= 5); (-) (Me= 3; Alex= 8)</p> <p><i>Punishment leading to the perception of incongruent rules</i></p> <p>(-) No disciplinary action was taken suggesting leniency in regulations.</p> <p>Moral (Me= 1; Alex= 0); instrumental values (Me= 3; Alex= 10)</p> <p>Because, free stuff, why not?</p>	<p>Peer behavior statements (+) (Me= 5; Alex= 1); (-) (Me= 7; Alex= 4)</p> <p><i>Not following the general behavior</i></p> <p>Even though the other managers have accepted gifts as well, that doesn't make it right.</p> <p><i>Loyalty/best interests of company</i></p> <p>The practice could lead to bad decisions and hurting the company in the long run. I just can't see myself accepting it.</p> <p><i>Personal reputation</i></p> <p>I also would not want to have that reputation.</p> <p>Punishment statements (+) (Me= 10; Alex= 6); (-) (Me= 6; Alex= 2);</p> <p><i>Risk of punishment/losing job</i></p> <p>(+) Even though the other managers are accepting gifts he is a new hire so he would not want to jeopardize his job.</p> <p>(+) I actually witnessed an employee being walked out of his job because he allowed a client to purchase a cup of coffee for him.</p> <p>(-) If he is found taking this bribe then he will be liable to his employers taking action against him.</p> <p>Moral (+) (Me= 18; Alex= 6); (-) (Me= 17; Alex= 7); instrumental values (+) (Me= 2; Alex= 0); (-) (Me= 3; Alex= 0);</p> <p>It would be unethical to accept the gift.</p> <p>The value of an iPhone is far less than just one paycheck.</p>

Source: own elaboration, based on survey participants' verbatim.

COC, codes of conduct.

Table 3. Ethical peer behavior, clear and unclear COC, and strong and weak punishment

Reasons for refusing the gift	
Strict COC	Flexible COC
<p>Strong punishment (+) N = 39</p> <p>Weak punishment (-) N = 38</p> <p>COC statements (+) (Me = 18; Alex = 29); (-) (Me = 23; Alex = 30)</p> <p><i>Violation of clear policy/(moral) duty to adhere to rules</i></p> <p>The company policy was 100% made clear upon ALEX's hiring.</p> <p>Peer behavior statements (+) (Me = 13; Alex = 29); (-) (Me = 18; Alex = 30)</p> <p><i>Following the general behavior</i></p> <p>Especially since I have also had experience observing the actions of the other managers in similar situations.</p> <p><i>Maintaining good relations with others/reputation</i></p> <p>Everyone else doesn't do it so if he did it, he'd be the odd man out at work.</p> <p><i>Peer behavior leading to the perception of congruent COC</i></p> <p>His observations suggest that the company really does observe and enforce this rule in real life, not just on paper.</p> <p>Punishment statements (+) (Me = 21; Alex = 24); (-)</p> <p>Considering the punishment of a verbal warning/retraining, I think that is severe enough to dissuade him from doing so.</p> <p>Moral (+) (Me = 10; Alex = 3); (-) (Me = 14; Alex = 4)</p> <p>It would go against my own personal beliefs and moral code.</p> <p>Instrumental values (+) (Me = 6; Alex = 1); (-) (Me = 2; Alex = 1)</p> <p>An iPhone is a valuable gift, but it is a very small value compared to the value of a job as a manager in such a company.</p>	<p>Strong punishment (+) N = 32</p> <p>Weak punishment (-) N = 24</p> <p>COC statements (+) (Me = 12; Alex = 21); (-) (Me = 13; Alex = 18)</p> <p>He should not violate the company policies. [NB: assumption of policy]</p> <p>Although it wasn't stated specifically in company policy common sense would dictate that accepting gifts from a potential contractor would be tantamount to accepting a bribe.</p> <p>Peer behavior statements (+) (Me = 13; Alex = 16); (-) (Me = 17; Alex = 24)</p> <p><i>Following the general behavior</i></p> <p>He sees the managers following this policy and would want to do the same.</p> <p><i>Maintaining good relations with others/reputation</i></p> <p>It is not worth losing reputation at work over such a smartphone. I want to fit in with my company's values and rules.</p> <p><i>Peer behavior leading to the perception of congruent COC</i></p> <p>As demonstrated by the non-acceptance of gifts by other managers it is a code rarely transgressed.</p> <p>Punishment statements (+) (Me = 12; Alex = 13); (-) (Me = 7; Alex = 10)</p> <p>In doing so, he would forfeit his entire career based off of a silly phone.</p> <p>Moral (+) (Me = 14; Alex = 2); (-) (Me = 6; Alex = 3);</p> <p>It would be against my moral principles to accept a bribe.</p> <p>Instrumental values (+) (Me = 3; Alex = 0); (-) (Me = 1; Alex = 1)</p> <p>I already own an iPhone XR and a XS Max so I wouldn't take the offer.</p>
<p>Reasons for accepting the gift</p> <p>Punishment (-) (Me = 0; Alex = 1)</p> <p>He may accept the gift because if the punishment is just a verbal warning he might be able to benefit from the situation without much danger.</p> <p>Instrumental values (Me = 0; Alex = 2)</p> <p>Most people would not turn down a gift that valuable.</p>	
<p>COC (-) (Me = 0; Alex = 1)</p> <p>ALEX was not informed of the rules formally during his time as a manager, so I could see him viewing this as not being too important and accepting the gift overall.</p> <p>Instrumental values (Me = 0; Alex = 4)</p> <p>I believe that ALEX would accept the iPhone Plus Apple as a gift because it's free.</p>	

Source: own elaboration, based on survey participants' verbatim.

COC, codes of conduct.

management is blatantly ignoring the rules and not being punished for it' or 'He will think because nearly all of the other managers accept gifts and are obviously not punished for it – that the code of ethics for their company is purely for show'.

When we turn to the weak punishment condition (Table 1b), a similar picture emerges except for the fact that some participants noted the existence of weak sanctions and suggested this indicates lower risks for unethical behavior; perhaps encouraging Alex to behave unethically. As one respondent expressed it, 'He would not have much damage to him if he did get caught since it is only a verbal warning anyway'.

Reasons for refusing the gift

When analyzing reasons for refusing the gift, we see a direct, expected effect of the COC and punishment. Some individuals saw these as deterrents to accepting the gift. They expressed the opinion that the rules were clear and should be followed, and they (and Alex) would be reluctant to face disciplinary action or lose their job. Informal norms were not often cited as a reason for refusing the gift, which is a predictable result in terms of those exposed to the unethical peer behavior condition. In contrast, some statements showed the respondents wished to counter the prevailing unethical behavior. They expressed phrases such as 'just because everyone is doing it doesn't make it right'. The reasoning following such statements revealed a fair amount of loyalty towards defending the best interests of their employer and concern for personal reputation and future career prospects. A highly cited reason for refusing the gift was personal moral values, and some respondents projected their moral stance onto Alex, assuming Alex, too, would make the moral choice notwithstanding the generalized unethical behavior of others. We note in all conditions that a substantial number of people judged gift giving as 'not right', 'unethical', or 'against my principles'.

Unethical peer behavior and unclear COC. Analysis of themes of COC, peer behavior, punishment, and values

Reasons for accepting the gift

In the unclear code of conduct norms and unethical informal norms conditions (Table 2), we see similar themes arising as in the previous analysis. The reasons cited for accepting the gift, especially in the projective method (Alex), principally reflect the observation that other managers in the firm are doing so. These observations lead to inferences about the formal norms. Thus, respondents speak about the status quo at the company or, as one respondent said, 'other managers who are seniors have been working in the company for years so he may think that it's not against the rules and as they were accepting those

kinds of gifts so he may also accept the gift'. Concurrently, observed unethical peer behavior led some to draw conclusions about the true state of punishment. For example, a few respondents expressed the notion that the firm is unlikely to act, even when punishment is strong. As one participant (who would accept the gift) wrote, 'if I thought there was any real chance I could get fired or disciplined for taking the gift, I almost certainly would not do it'.

The results show that in contexts with unclear rules and strong punishment policies, the fact that other employees behave unethically make individuals question the enforcement of these sanctions and assume that there are no formal rules regarding bribery, and that punishment is inexistent. Thus, they seem to be more likely to accept the gifts in these situations than in contexts where rules are clear and punishment policies are strong, but peers behave unethically. Consequently, we suggest that strong sanctions may, in some cases, exacerbate the feeling that formal corporate norms are purely just for show and that sanction policies are not enforced; as a result, people in these contexts will adapt more strongly to general unethical informal norms.

Overall, we can conclude that when COCs are unclear, and peer behavior is unethical, strong punishment can act in two ways. First, it can have the intended deterrent effect, such as in the comment 'I would not want to risk the safety of my new job for one luxury gift. It would not be worth the risk to me, so I'm pretty confident that I would not accept the gift'. At times, however, it can reinforce the perceived mismatch between observed behavior and informal norms and lead to heightened unethical behavior, reflected in the comment, 'I believe that Peter would have accepted the gift because other managers have accepted gifts in the past without receiving any consequences'.

Reasons for refusing the gift

Surprisingly, in this condition, in which there was no mention of a rule against gift giving, some respondents simply assumed this would be a policy and referred to the code of conduct/company policy/rules as prohibiting such behavior. For example, we saw 25 citations indicating the respondent was unwilling to break the rules or wished to follow the rules. Similarly, some respondents made assumptions about the punishment being harsh, even in the weak sanction conditions. Thus, eight statements about the deterrent effect of punishment were found in the weak sanction scenario respondents, some of whom even feared losing their jobs.

The consequence of these assumptions is that even in the unclear COC condition, obeying the rules or the code of conduct still exists as a reason for refusing the gift. Similarly, even when weak sanctions exist, there remain those who wish to avoid punishment, either real or imagined. Finally, we still see a

major reason for refusing to behave unethically, even in the presence of unethical peers' behavior; lies in the individual's personal moral beliefs, and their decisions to resist unethical behavior come from their unwillingness to act against their own principles and ethics.

Ethical peer behavior and clear and unclear COC: Analysis of themes of COC, descriptive norms, punishment, and values

Reasons for accepting the gift

When other managers in the firm never accept gifts, respondents cited almost no reasons for accepting the gift (Table 3). Only eight statements suggested it would be acceptable for a third party to act unethically. Six of these eight concerned the value of the gift. One cited the leniency of disciplinary action and one the lack of clear rules. Because the informal norm in the ethical condition is for others to refuse gifts, logically, no one gave this as a reason for accepting the gift. Generally, there were very few responses indicating the respondent or a third party would accept the gift if nobody else was doing so.

Reasons for refusing the gift

Overall, in this analysis, a more even spread of citations of reasons for refusing the gift was given. This indicates the observation of ethical informal norms may lead to perceptions of congruence between the rules, sanctions, and behavior observed in the company. Respondents in the ethical peer behavior condition tended to cite two or three reasons for refusing, including the rules, others' behavior, and sanctions.

As seen in the previous analysis for the unethical peer behavior condition, respondents cited the COC and punishment as direct reasons for refusing the gift. Once again, we note the phenomenon of respondents making assumptions about the existence of rules and punishment even though no such information occurred in the scenario.

Respondents cited their moral values as a strong reason for refusal, and they also gave instrumental or economic reasons, saying potential loss of salary and career opportunities would be a salient factor in their decisions. The projection of their own moral values onto Alex was strengthened in the ethical norm condition; this suggests they may expect others' values to be congruent with the prevailing informal norm of honest behavior.

The analysis also supports the notion that informal norms are important per se as a driver of principled behavior, and the largest number of citations for Alex refusing the gift (and many also for me) fell in this category. Thus, the simple fact no one else accepted the gift was reason enough for Alex or the respondents themselves to follow suit. Interestingly,

respondents seemed more likely to say they would follow informal norms in this condition than in the previous one of unethical informal norms. This suggests individuals are more likely to believe they will follow the crowd when the behavior of that crowd is seen as morally acceptable. In this case, that is acting ethically by not accepting a gift from a supplier. We also saw the themes of loyalty to the company and personal reputation emerging for both Alex and me somewhat more clearly than in the unethical peer behavior condition.

Results, discussion, and hypothesis development

The results of this study show that informal norms play a major role in the way people think and behave when making decisions. When respondents observed others refusing gifts, they were unlikely to say they or a third party would accept them. When they observed colleagues accepting the gifts, then we noted other considerations coming into play, notably the rules and punishment.

When exposed to contexts of unethical peer behavior, individuals referred to different pieces of information regarding formal norms, such as the clarity of COC, and the consistency of punishment policies with these codes. Thus, when COC were clear and punishment strong, they interpreted it as if the company was making a correct move in the direction of reducing unethical behavior. However, when COC were unclear and punishment was strong, these punishment policies exacerbated their perceptions that formal norms are just for show, and that the real rules of the organization are reflected by the behavior of peers. They thus expressed even higher intentions to behave unethically. We draw on reactance theory to explain the psychological mechanism that may be driving this effect. Reactance is characterized by a sense of freedom restriction and the motivation to regain the restricted behavior (Brehm, 1966; Rosenberg & Siegel, 2018). According to this view, even if individuals have an innate tendency to comply with social norms, the cognitive dissonance experienced between the 'is' and 'ought to' of unethical peer behavior and no clear code versus strong sanctions can motivate individuals to act in opposition to the direction desired. This effect is particularly relevant when sanctions are harsh, implying a higher threat to freedom (Balliet et al., 2011).

We therefore propose the following hypothesis:

H2: In contexts where peers behave unethically, strong punishment combined with unclear COC increases individuals' unethical decisions.

Finally, the results demonstrate that personal and moral values are an important reason why people do not accept gifts, in distinct scenarios. Thus, whether peers accept gifts or not, and

Table 4. Study 1. Summary of results

	Clear code of conduct	Unclear code of conduct
Unethical peer behavior	<p>Accepting gift COC as window dressing. Strong punishment is seen as not enforced but may be risky. Weak punishment is perceived as nondeterrent. Tendency to mimic general behavior to fit-in.</p> <p>Refusing gift Refusal or reluctance to break clear policy. Risk of sanctions. Personal values and reputation trump others' behavior: Loyalty to the employer.</p>	<p>Accepting gift Peer behavior as signal of 'real' code of conduct.</p> <p>Refusing gift Personal interpretation of responsibility to follow nonspecific rules. Risk of sanctions. Personal values, reputation and loyalty.</p>
Ethical peer behavior	<p>Accepting gift Weak punishment might be an acceptable risk.</p> <p>Refusing gift Clear policy. Mimicking others' behavior. Peer behavior signal adherence to code and enforcement of punishment.</p>	<p>Accepting gift Lack of clear rules may not offer enough guidance.</p> <p>Refusing gift Mimicking peer behavior. Assumption that there is a clear policy and high risk of punishment based on observation of others' behavior.</p>

Source: own elaboration.
COC, codes of conduct.

despite unclear norms and weak sanctions, some respondents said they would return the gift because accepting bribes was wrong and went against their values. Table 4 summarizes the main findings.

Study 2

Design, procedures, and sample

To test hypotheses 1 and 2, we used a 2 (*code of conduct*: clear [explicit], unclear (implicit) × 2 (*peer behavior*: unethical, ethical) × 2 (*punishment*: strong, weak) between subjects' design in MTurk. Participants were paid 3 US dollars and 50 cents (\$3.50) for their participation. The study was restricted to United States residents, with a job function in management, an approval rate greater than 95%, and who were approved in at least 100 other MTurk studies. We opted for a sample of respondents with managerial experience because we consider that they are better able to imagine the scenarios and project themselves into the position of decision-maker, as required in the study.

After agreeing to take part in the study, subjects were randomly assigned to one of the combined scenarios of code of conduct, peer behavior, and punishment used in study 1. COC, punishment, and peer behavior were manipulated as in the previous study. After removing incomplete answers and those who had failed the attention check, the final sample comprised

374 respondents: 205 were female (54.8%), of whom 16.8% of the sample aged up to 30 years old, 38% between 31 and 40, and the remainder were over 40 years old.

Measures

We measured participants' intentions to take an unethical decision by asking, if in their opinion, Alex would accept the gift, and their responses were measured with one item anchored with 1 = *extremely unlikely* and 7 = *extremely likely*.

Manipulation check questions

Participants' perceptions about the company's code of conduct were measured with three items: 'The company has a clear code of conduct', 'the company has a controlling code of conduct', 'the company has a flexible (*R*) code of conduct' ($\alpha = 0.84$).

Punishment perception was measured with two items: 'The company punishes unethical behavior', and 'in this company there is little punishment (*R*) for unethical behavior' ($\alpha = 0.82$).

Participants' perceptions of whether Alex's peers were behaving ethically or unethically were measured with two items: 'Managers are acting according to the established norm' (*R*), and 'Managers are showing unethical behavior' ($\alpha = 0.79$). Answers on participants' perceptions about the conduct of

conduct, punishment, and peer behavior were anchored with 1 = *strongly disagree* and 7 = *strongly agree*.

An attention check question ('Please select 'strongly agree' if you read this question') and demographic questions (i.e., gender, age, country of birth, and management experience) were also inserted in the questionnaire.

Results

Manipulation checks

Three composite variables with the means of the respondents' perception of COC, punishment, and peer behavior were created. The results of a one-way analysis of variance (ANOVA) with the composite mean of COC as the dependent variable showed participants identified COC as more clear and controlling and less flexible in scenarios of clear COC ($M_{COC_clear} = 5.21$, standard deviation [SD] = 1.34) than in scenarios of unclear COC ($M_{COC_unclear} = 4.71$, SD = 1.48; $F(1,373) = 11.83$, $p < 0.001$). A one-way ANOVA was conducted with the mean of the punishment questions as the dependent variable, and the results showed respondents perceived punishment as stronger in the scenarios of strong punishment ($M_{PUN_strong} = 4.87$, SD = 1.91) than in the scenarios with weak punishment ($M_{PUN_weak} = 4.25$, SD = 1.63; $F(1,373) = 11.58$, $p < 0.001$). Finally, a one-way ANOVA conducted with the composite mean of peer behavior as the dependent variable showed that respondents considered peer behavior as more unethical in the scenarios of unethical peer behavior ($M_{Peer_unethical} = 4.74$, SD = 1.14) than in scenarios of ethical peer behavior ($M_{Peer_ethical} = 2.06$, SD = 0.99; $F(1,373) = 586.26$, $p < 0.001$).

ANOVA

To test hypothesis 1, we conducted an ANOVA to analyze the effect of peer unethical behavior, COC, and punishment on Alex's likelihood of keeping the gift. The results demonstrated direct effects of peer behavior ($F(1,373) = 408.23$, $p < 0.001$) and COC ($F(1,373) = 7.86$, $p = 0.005$) but no direct effect of punishment ($F(1,373) = 1.24$, $p = 0.265$). A two-way interactive effect ($F_{Peer \times COC} = 4.43$, $p = 0.036$) was significant as was the triple interaction ($F_{Peer \times COC \times Pun} (1,373) = 7.85$, $p = 0.005$), ($R^2 = 0.56$). No further interactive effects were observed.

The triple interaction shows that, in contexts of unethical peer behavior, strong punishment ($M_{StrongPun} = 4.27$) will more likely reduce unethical intentions than weak punishment ($M_{WeakPun} = 5.00$; $p < 0.05$). We therefore fully support hypothesis 1.

Simple slopes difference analysis

In order to further explore the moderating effects of punishment and COC on ethical decision making and test hypothesis 2, we carried out a simple slopes difference analysis (Aiken & West, 1991), illustrated in Figure 1.

The analysis demonstrates that informal ethical systems (i.e., unethical peer behavior) have a clear, strong effect in increasing unethical decisions with all slopes showing a significant effect of peer behavior on unethical decisions. COC and punishment have almost no effect when peers behave ethically. In addition, we can see (slopes 1 and 4) that explicit COC (compared to unclear COC) combined with strong (versus weak) punishment have the effect of reducing unethical decisions when peers behave

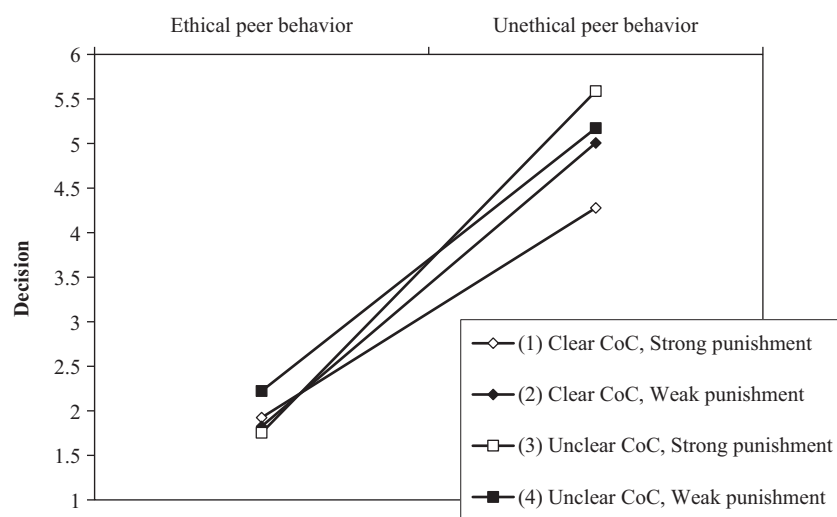


Figure 1. Simple slopes analysis of peer behavior, COC, and punishment on likelihood of keeping a gift.

Notes: all slopes were significant ($p < 0.01$); all differences between slopes were significant except between slopes 2 and 4 ($t = 78.10$, $p = 0.241$); full details are shown in Table 5.

Source: own elaboration.

Table 5. Study 2 simple slopes analysis

Pair of slopes	Slope difference	t-value	p-value	95% confidence interval	
(1) and (2)	-0.828	-117.932	0.000	(-0.842 to -0.814)	
(1) and (3)	-1.481	-7.720	0.000	(-1.857 to -1.105)	
(1) and (4)	-0.597	-2.956	0.003	(-0.993 to -0.201)	
(2) and (3)	-0.653	-3.507	0.001	(-1.018 to -0.288)	
(2) and (4)	0.231	1.175	0.241	(-0.154 to 0.616)	
(3) and (4)	0.884	78.103	0.000	(0.862 to 0.906)	
		Slope 1	Slope 2	Slope 3	Slope 4
		COC = 1	COC = 1	COC = 0	COC = 0
		PUN = 1	PUN = 0	PUN = 1	PUN = 0
Gradient of simple slope		2.353	3.181	3.835	2.951
t-value of simple slope		8.218	10.856	8.336	6.268
p-value of simple slope		0.000	0.000	0.000	0.000

COC, codes of conduct; PUN, punishment.

Source: own elaboration.

Table 6. Estimated marginal means for three-way ANOVA of peer behavior; codes of conduct (COC), and punishment on likelihood of keeping a gift

Peers' behavior	COC	Punishment	Mean	Std. error	95% LLCI	95% ULCI
Ethical	Unclear	Weak	2.22	0.21	1.80	2.64
		Strong	1.75	0.22	1.32	2.18
	Clear	Weak	1.83	0.19	1.45	2.20
		Strong	1.93	0.23	1.48	2.37
Unethical	Unclear	Weak	5.18	0.22	4.75	5.60
		Strong	5.59	0.20	5.20	5.98
	Clear	Weak	5.00	0.20	4.61	5.39
		Strong	4.27	0.25	3.78	4.77

Source: own elaboration.

COC, codes of conduct; LLCI, lower level confidence interval; ULCI, upper level confidence interval.

unethically ($M_{ClearCOC,Strong\ pun} = 4.27$, standard error [SE]=0.25, $M_{UnclearCOC,Weakpun} = 5.18$, SE=0.22, $p < 0.001$), but they do not play a role when peers behave ethically ($M_{ClearCOC,Strong\ pun} = 1.93$, SE=0.23, $M_{UnclearCOC,Weakpun} = 2.22$, SE=0.21, $p = 0.537$). This provides further evidence for hypothesis 1.

However, when the code of conduct and sanctions are not congruent, their combined effects with informal ethical systems are not as predictable. When COC are clear, but no sanctions follow, it is as if there were no code of conduct (slopes 2 and 4), so employees behave as unethically as when COC is not explicit.

When codes are unclear, strong punishment increases the negative effect of unethical peer behavior (slope 3), and it becomes worse than if there had been no rules and no sanctions (slope 4). In other words, our results show that punishment has the effect of strengthening the influence of unethical peer behavior in this condition. We thus support hypothesis 2. Table 6 shows the estimated marginal means.

Further analysis: The mechanisms at work

To explore the mechanism by which peer behavior influences unethical decisions, we examined the indirect effect of peer behavior on unethical decisions through perceptions of punishment and COC. Using PROCESS (Hayes, 2017, Model 6), we entered peer behavior as the independent variable, then the manipulation checks of a) perceptions of punishment strength as the first mediator; b) perceptions of code clarity and strictness as a second mediator with unethical decision as the dependent variable, controlling for the punishment and COC manipulation variables. Results showed that unethical peer behavior decreased perceptions of punishment strength ($b = -2.09$, $p < 0.001$; 95% CI [-2.376, -1.797]), which positively related to perceptions of COC clarity and strictness ($b = 0.24$, $p < 0.001$; [0.147, 0.331]) leading to an overall positive indirect effect of unethical peer behavior on unethical decisions ($b = 0.311$; [0.036, 0.586]; $R^2 = 0.56$; $F(5,368) = 94.84$, $p < 0.001$). These results support the

notion that unethical peer behavior decreases perceptions that the company will punish unethical behavior, which in turn will lead them to believe that the code of conduct is ineffective, with a final effect of increasing unethical behavior.

Summary

Overall, the results show that peer behavior is the strongest predictor of unethical intentions. COC and sanctions, alone or combined, help reduce unethical behavior to a very small degree when peers behave ethically. As such, these formal instruments have a small, desired effect as long as there is a culture of ethics within the company.

However, when peers behave unethically, using COC and punishment does not always produce effective results. First, our results show that consistent formal norms, namely clear COC and strong punishment, interact to reduce individuals' unethical decisions, even when their peers are not behaving ethically. Second, we see that imposing punishment is counterproductive when the rules are not clear. In the absence of an explicit code of conduct, simply punishing unethical behavior strengthens the effect of unethical peer behavior on employees' unethical intentions.

General discussion

In a recent study, Casali and Perano (2021) reviewed 40 years of literature and identified 42 factors influencing ethical decision-making. They noted that, although some items have shown consistent results across studies (e.g., peer behavior), additional research on how combinations of some of these factors may reduce unethical behavior would help enlarge the current knowledge. We address this call by developing a multimethod study, allowing us to gain both qualitative insights and quantitative empirical support for our findings. Our results show that peer behavior has the strongest effect in reducing unethical intentions. In addition, punishment, when accompanied by clear COC, is effective in reducing unethical intentions when peers behave unethically; however, in these contexts, COC are ineffective when not supported by punishment policies, and punishment can be counterproductive when rules are implicit or nonexistent. In what follows, we discuss the theoretical and managerial implications of our results, define limitations and directions for future research, and draw our main conclusions.

Theoretical and managerial implications

The results of our two studies provide new evidence to the existing literature on the elements that companies can put in place to reduce unethical behavior (e.g., Frey et al., 2023; Jannat et al., 2022; Kaptein, 2015; Slaughter et al., 2020), as well as the influence of peer behavior (e.g., Bauman et al., 2016;

Keith et al., 2003), specifically addressing the interactions among these formal and informal elements on ethical decision-making.

First, our findings demonstrate that the ethical behavior of peers outweighs any effect of formal norms on unethical intentions, as individuals in contexts where coworkers behave ethically follow their behavior and adopt an ethical choice, whether norms and sanctions are explicit or not. However, in situations where peers behave unethically, an appropriate combination of formal ethical systems can successfully deter unethical intentions. Thus, we add to the literature on the effectiveness of COC (e.g., Kaptein & Schwartz, 2008) and sanctions (Fehr & Fischbacher, 2004; Tenbrunsel & Messick, 1999) by showing that the definition of clear ethical policies associated with strong sanctions can effectively reduce unethical intentions in contexts where peers behave unethically, yet the use of just one of these formal mechanisms, such as COC without clear sanctions for deviant behavior, would not be effective in discouraging unethical intentions.

Second, our results show that the use of strong punishment without clear rules, in situations where peers behave unethically, can increase unethical intentions. In these contexts, individuals tend to interpret sanction policies as ineffective, which provides them with an extra signal that unethical behavior is tolerated, and the company is not seriously trying to reduce it. Previous research demonstrates that punishment may be interpreted in different ways, which leads individuals to distinct perceptions and behaviors when exposed to sanction policies (e.g., Treviño, 1992). For example, employees are likely to respond more positively, such as by demonstrating higher commitment and performance, to sanctions they consider to be fair and more negatively to sanctions they consider to be unfair (Podsakoff et al., 2006). In addition, they may feel disappointed, or even angry, when deviant behavior is not punished, as if it were they, and not the wrongdoers, who had been punished (Treviño & Weaver, 2011).

In this regard, our work supports and complements the literature that conceptualizes punishment as a social phenomenon (e.g., Niehoff et al., 1998), where observing the punishment of others provides information and learning opportunities, which influence individuals' perceptions and reactions to punishment policies. We show that a combination of unethical behavior on the part of peers, unclear rules, and strong punishment leads to the individuals' perception that the company is deliberately ignoring ethical concerns and that punishment is just for show, which increases their unethical intentions.

Finally, we propose that the psychological mechanisms underlying these results can be related to the theory of cognitive dissonance (Festinger, 1959) experienced by individuals when there is a degree of incongruence between informal and formal norms. This inconsistency causes individuals to seek congruence, for example, causing them to realign their beliefs about organizational sanctions and rules based on peer

behavior. Tedeschi et al. (1971) suggest that cognitive dissonance and reactance theory have common roots in that both predict that individuals will engage in behavior to resolve a tension created by contradictory or dissonant observations. Reactance occurs specifically when freedoms are threatened. We support this notion, suggesting that when the dissonance is very high, specifically when sanction policies are harsh, reactance theory (Rosenberg & Siegel, 2018) can explain why individuals engage in even higher degrees of unethical behavior in an attempt to regain their perceived loss of autonomy.

Based on our findings, we suggest some ways companies can improve ethical decision-making. Primarily, they should be vigilant about the informal ethical systems, the so-called real rules determining employees' decisions, and aim to implement an organizational climate in which behaving ethically is the expected choice. One conceivable way of achieving this is to stimulate ethical practices among top managers to set a strong moral example from the top that becomes the informal reference for all employees (Schroeder, 2002). However, if the opposite occurs and companies identify that employees often behave unethically, they should establish formal systems in the form of clear COC combined with strict sanctions to deter misbehavior. As our results demonstrate, only employing one of these elements is not enough to dissuade unethical behavior in contexts where unethical informal systems prevail.

Limitations and directions for future research

One limitation in this study relates to only testing punishment effects and not examining the effects of rewards, which could yield substantially different outcomes. Future work could usefully investigate whether rewards and punishment have similar interactive effects in different conditions of formal and informal ethical systems. Research could also explore the effect of peer behavior more thoroughly. For instance, what are the cognitive, emotional, and behavioral processes that underline peer behavior influence (O'Fallon & Butterfield, 2012)?

A second limitation arises from the necessary choice of a single unethical decision for the experimental design, namely accepting a gift at work. Gift giving is a useful choice in that it is open to diverse moral reflections regarding whether it is right or wrong, but the results might differ for other types of work decisions. Future research could usefully consider a range of ethical decisions, such as slacking, absenteeism, fraud, or negligence, in terms of their moral intensity (Jones, 1991) and in real contexts. For example, negligence in terms of health and safety in a hospital setting would be high in terms of magnitude and concentration of harm and might be less influenced by others' behaviors and more by the rules. In contrast, arriving late to work to an office job in a sales department could be viewed as low in moral intensity and be even more highly influenced by informal norms, with no regard to formal policies.

Future studies could also examine whether the effect of formal and informal ethical systems would differ in distinct societal contexts. Culture influences expectations of freedom and how individuals respond to norms (Miron & Brehm, 2006). For instance, some cultures are more permissive and tolerant of transgressions of social norms than others (Melynk et al., 2014), which can influence individuals' perceptions and behaviors. For example, does the effect of peer behavior change in distinct societal contexts (Bicchieri, 2006)? Do individuals respond differently to codes of ethics (Langlois & Schlegelmilch, 1990) and punishment (Treviño & Weaver, 2011) across distinct societal contexts?

In addition, our qualitative data showed that personal values, both moral and instrumental, are a strong driver of ethical decisions. While this issue has been studied widely in previous research (e.g., Casali & Perano, 2021; Jones, 1991), future work could usefully investigate the interplay between personal values and formal/informal ethical systems in organizations and their combined effects on ethical decisions.

Finally, future work could address individuals' cognitive, emotional, and behavioral consequences of unethical behavior: For example, how do employees justify and perpetuate a culture that tolerates bribery in an organization (Anand et al., 2004; Kaptein, 2011a)? Can the emotions experienced after accepting a bribe prevent employees from engaging in unethical behavior in the future (Pelletier & Bligh, 2008)? These questions and the research addressing them could have important implications for understanding how company rules are best implemented and communicated in various market conditions.

Conclusions

Our work expands the growing body of research on the mutual effect of formal and informal ethical systems on unethical behavior in organizations (Falkenberg & Herremans, 1995; Jacobson et al., 2020; Tenbrunsel et al., 2003) by showing that peer behavior plays a prominent role in these processes and in highlighting some specific mechanisms by which formal ethical systems can counter or bolster informal norms. Understanding how and when formal policies will be effective is likely to become increasingly important in the rapidly changing work environments of today, where hybrid work modes and extensive use of technology may dilute the traditional informal ethical systems where employees could observe and fit in with the ethical culture of a real workplace.

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Appendix I. Experimental vignettes studies 1 and 2

Explicit codes of conduct

Alex has been recently hired as a technology manager for a large company called Mega X and was introduced to the 25 managers working in the company. Alex also received a version of the code of conduct of the company, where the work rules are defined, and one of these internal rules is:

All employees should promptly return to their respective senders any gifts, hospitality and payment received from our business partners, informing the company anytime it occurs. Our business relationships must always be extremely transparent and free from any perception that favorable treatment has been sought, received or offered through gifts, favors, hospitality, entertainment or the like. The term 'gift' implies anything of value in exchange for which it is not necessary to pay its normal or usual price in the market.

Implicit codes of conduct

Alex has been recently hired as a technology manager for a large company called Mega X and was introduced to the 25 managers working in the company. Alex also received a version of the code of conduct of the company, where the work rules are defined, and one of these internal rules is:

The company recommends that employees be responsible and engaged, trying to create and maintain good relationships with other employees and all their business partners, and that they manage properly their activities and resources, such as information, in order to promote the good performance of the company.

Strong punishment

Alex was also informed about the disciplinary actions applied if the rules of the company are not observed:

Mega X company does not tolerate any kind of violation to its rules. Any employee, in any level of the company, who violates these rules will be submitted to disciplinary procedures that, if confirmed, can result in the termination of the work contract and/or penal actions.

Weak punishment

Alex was also informed about the disciplinary actions applied if the rules of the company are not observed:

Mega X company expects that all employees respect the rules of the company. Any employee, in any level of the company, who violates the rules may be submitted to a verbal warning and specific training.

Unethical peers' behavior

After having worked 90 days in the company, Alex notices that all managers, new and old in the company, accept all kinds of gifts from the business partners, not returning and not informing the company about the gifts received.

Ethical peers' behavior

After having worked 90 days in the company, Alex notices that no manager accepts any type of gift or hospitality from the business partners, always returning them to the partner and informing the company about the gift offers whenever received.

General

Alex is in charge of selecting an information system provider for a one-year trial period, with the possibility of renewing the contract after the trial period for an indefinite period. Among several companies, Alex preselected three companies that presented very similar quotes, and a few days before the decision should be made, Alex received an Apple iPhone Plus device as a gift from one of the competing companies.