

Ethical Compliance Behavior in Small and Young Firms: The Role of Employee Identification with the Firm

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We explored whether employees in smaller, younger firms would be more ethically compromised, and whether employee identification moderates this relationship. We collected survey data from 154 working professionals enrolled in an MBA program in the southeastern United States. We found that employees of smaller, younger firms selected more compromised ethical choices than employees of larger, older firms. Contrary to our expectations, employee identification had no effect in smaller, younger, firms, yet in larger, older firms, identification actually reduced ethical compliance, suggesting that there is not a simple relationship between identification and ethical compliance.

Keywords: small business; ethical compliance; employee identification; ethical decision making

In this age of colossal global corporate ethical disasters worldwide, thought leaders of many disciplines are desperately searching for clues to understand the underlying pressures that affect ethical choices made every day inside all organizations—small and large, young and old. Executives are eagerly and anxiously instituting corporate codes of ethics to formalize behavioral guidelines (e.g., Schwartz 2001; Somers 2001; Stansbury and Barry 2007). Whole careers are emerging in the compliance and ethics field (e.g., Murphy and Leet 2007; Weber and Fortun 2005). From a judicial perspective, the U.S. Sentencing Commission amended the Federal Sentencing Guidelines in 2004 to allow firms that create “effective compliance and ethics programs” to receive better treatment if prosecuted for fraud. In the academic realm, management scholars are more systematically investigating the ethical decision-making context in organizations to determine if there are identifiable pressures that enable or impede organizational efforts to improve the ethical choices of all employees (e.g., Neubaum, Mitchell, and Schminke 2004; Schminke 2001).

Despite the attention paid to improving corporate ethics, we suggest that smaller and younger firms experience constraints that may limit their ability to systematically imbed compliance and ethical routines into their organizations. Both smaller and younger firms typically lack resources for

full-time compliance officers, formal ethics programs, or sophisticated structural procedures addressing compliance and ethical issues (Ciavarella 2003; Eisenhardt 1988). If these resources are genuinely beneficial for instilling ethical behavior in organizations, then it follows that smaller and younger firms may suffer in their efforts to institute such ethical climates, or that smaller and younger firms must rely on other tactics. Consequently, we believe that a more rigorous understanding of the effects of firm size and age on the firm’s ethical decision-making climate will assist thought leaders as they target solutions for these distinct types of enterprise. This leads to our primary research question: *Do employees in smaller and younger firms make choices that are more ethically compromised than employees in larger or older firms?*

What happens if these smaller and younger firms do exhibit weaker ethical contexts, based on their employees’ choices? How can these firms overcome the lack of structural procedures to help guide ethical behavior? One possibility lies in the employees themselves. Individuals who demonstrate a strong personal identification with their organization may be more likely to favor the company’s long-term interests over their own interests in ethical dilemmas, especially in smaller, younger firms (Cole and Bruch 2006; Reynolds 2003; Trevino and Victor 1992; Victor, Trevino, and Shapiro 1993). This possibility leads to the secondary research question: *Does the extent of identification an employee feels toward the firm moderate any effect of firm size and age on ethical choices?*

To address these research questions, we collected data from 154 working professionals enrolled in an MBA program in the Southeastern region of the United States via an anonymous, voluntary survey instrument. We next develop our theory and hypotheses, and then explain our research design and findings, and finally discuss the implications of findings for thought leaders in the ethics and compliance fields.

Theory Development and Hypotheses

Organizational size and age are key structural features of every organization (Pfeffer 1991). Broadly, the concept of structure includes organizational size, the number of hierar-

chical levels, formalization, and centralization. Importantly, organizational size and age tend to covary and are strong indicators of the presence of underlying structural dimensions of hierarchy, formalization and standardization (Hannafey 2003; Pfeffer 1991; Scott 1998). Pfeffer reminds us that employees are embedded in social structures that can be delineated and have a substantive impact on employees' outcomes (Oldham and Hackman 1981). In this spirit, then, we argue that the organizational size and age aspects of structure may affect the ethical choices that employees must make. Supporting this perspective, Robertson and Anderson (1993), using ethical scenarios, determined that certain features of organizational structure influence how salespeople resolve ethical conflicts.

Organizational Size, Age, and Ethical Choice

Organizational size and/or age may constrain the establishment of ethical guidelines for employees when they are faced with ambiguous ethical or compliance dilemmas. For example, the U.S. Sentencing Guidelines present specific steps that organizations should take to instill satisfactory behavior and an ethical climate that will reduce sentencing penalties. Many large, established firms have adopted the guidelines to assist them in setting an appropriate climate. But smaller and younger firms may lack sufficient resources to establish such complex formal control systems. We next discuss the structural constraints that smaller firms face that may inhibit their ability to implement effective ethical behavioral control systems. Then, we present similar arguments for younger firms to develop our first hypothesis.

Smaller Firms and Ethical Choice. Smaller firms typically have fewer hierarchical levels, less formalization, and more centralization of decision making. These factors mean they have less need of formal structures to implement organization-wide ethics policies. Instead, leaders in smaller firms may feel that they have a direct pulse on each employee and therefore they can directly intervene in inappropriate behavior, and proactively set the ethical guidelines for the firm with their own behavior (Ciavarella 2003; Eisenhardt 1988). Larger firms, on the other hand, have increased organizational slack, formalization, and structured human resource practices that may facilitate the firm's ability to instill ethical standards of behavior (e.g., Scott 1998).

There is little evidence that establishing an ethical climate is a pressing priority for leaders of smaller firms. For example, in a survey of more than 1500 small business managers in the Atlanta, Georgia, region, researchers asked managers to identify their primary business concern. The number one concern was human resource issues, followed by financing issues, and then the economy. None of the respondents identified ethics or compliance within their firm as a key issue (Oviatt 2007). Of course, the evidence that ethical or compli-

ance issues are not first does not mean that they are irrelevant to the managers.

Younger Firms and Ethical Choice. Younger firms have special challenges, such as liability of newness and liability of legitimacy (Aldrich and Auster 1986; Barron 1998). Younger firms have higher operational risks, heightened uncertainty, and much less organizational slack in terms of financial resources, human resources, and intangible resources. This resource-constrained environment, coupled with heightened strategic and organizational uncertainty, may put additional pressures on the organization to cut corners, or to emphasize more strongly short-term results over long-term behavioral consequences (Eisenhardt 1988). Older, established firms, in contrast, have much higher survival rates than younger firms. Therefore, it is possible that in new ventures, the organizational leaders are more intensely focused on organizational survival and less attentive to establishing professional norms of conduct. Therefore, younger firms may lack the commitment to long-term ethical standards when management is struggling with issues of competition, cash flow challenges, and ill-defined human resource practices (Morris et al. 2002; Neubaum, Mitchell, and Schminke 2004).

Hannafey (2003) explores some of the key reasons that entrepreneurial organizations make ethically compromised choices in his literature review of entrepreneurship and ethics. He notes that beyond the stressful and complex environment within which entrepreneurial organizations function, these young firms "may encounter acute leadership and managerial difficulties" (p. 104) as well as an unformed ethical culture, which could range the gamut of highly ethical to very weakly ethical, depending on the founder's choices and actions. Consistent with Hannafey's arguments, Neubaum, Mitchell, and Schminke (2004) found that entrepreneurial settings were less associated with the ethical climate category that emphasizes a cosmopolitan locus, that is, that embraces considerations for the larger societal interests and more associated with instrumental ethical considerations (Victor and Cullen 1988). Similarly, Morris et al. (2002) found that four different ethical clusters emerged for entrepreneurial firms, but only one of them, representing a small percentage of firms in their sample, encompassed prosocial ethical standards, which they labeled "superlatives." Therefore, in an entrepreneurial environment, it is possible that many employees have fewer organizational incentives for engaging in compliance behaviors above and beyond the legal requirement. Therefore, employees may err on the side of pragmatic short-term outcomes, rather than long-term ethical implications when they are faced with a potential ethical or compliance situation.

Thus, in smaller and younger businesses, the manager faces too many pressing issues that all seem important, and

the firm lacks the structural resources to delegate, prioritize, and systematically address each issue. This structural flexibility may be very effective in certain competitive environments, but it may be detrimental to issues that require consistent, long-term approaches, such as compliance and ethical codes of conduct. The above arguments suggest the following hypothesis:

H1: Employees of smaller firms and of younger firms are more likely to respond in a less ethical manner when confronted with an organizational ethical dilemma than employees of larger firms and of older firms.

Organizational Identification and Ethical Choice

Although the organization's structural dimensions of organizational size and age may be powerful influences on employees' ethical decisions, we suggest that when employees feel a strong sense of connection with the organization, they are going to support that organization with highly ethical decisions, independent of the firm's size or age. A widely accepted precept of social psychology, labeled social identity theory, explains that an individual's sense of self, or personal identity, is strongly influenced by his or her perception of inclusion in certain groups, such as nationalities, political parties, and organizations (Tajfel and Turner 1986; Tolman 1943; Turner 1984). An individual gains stronger self-esteem from identification with prestigious groups when he or she "perceives themselves as psychologically intertwined with a group's fate, sharing its common destiny, and experiences its successes and failures" (Mael and Ashforth 1995: 310). An important subset of this generalized theory is organizational identification, which focuses on the extent to which an individual identifies with his or her work organization. Thus, organizational identification is the extent to which the individual internalizes the characteristics of the organization as his or her own (Cole and Bruch 2006). For the purposes of this article, we are interested in the extent to which organizational identification motivates prosocial ethical behavior within the firm. To understand this rationale more fully, we turn our attention to the theoretical and empirical evidence of organizational identification and its consequences.

Individuals are motivated to hold positive self-images, which improve psychological health and well-being (Brockner 1988). When the organization is viewed positively, therefore, individuals may seek to strengthen their personal identification with the organization. They experience pride, positive self-esteem, and a greater desire for ongoing affiliation with the organization (Dutton and Dukerich 1991; Dutton, Dukerich, and Harquail 1994; O'Reilly and Chatman 1986). However, when the firm's image is sullied, employees suffer (e.g., Dutton and Dukerich 1991).

When employees have strong organizational identification, they will engage in behaviors that sustain, reinforce, and strengthen a positive image of the organization. Dutton, Dukerich, and Harquail (1994) argue that strong organizational identification will stimulate interorganizational cooperation, citizenship behaviors, commitment, and loyalty while O'Reilly and Chatman (1986), using a more generalized construct of organizational commitment, find that it increases psychological attachment. Foreman and Whetten (2002) propose that strong identification fosters more organizational involvement and internalization of organizational goals. Ashforth and Mael (1989), similarly, predict more commitment and loyalty from employees who have strong organizational identification, and Reger et al. (1994) explain that organizational identification improves employees' acceptance of change. Mael and Ashforth (1992) found that stronger identification with an alma mater was associated with increased financial giving and willingness to advise others to attend the university. Weak organizational identification, on the other hand, is associated with higher turnover (Cole and Bruch 2006; Mael and Ashforth 1995), and less commitment to organizational goals (Cole and Bruch 2006).

When individuals have strong organizational identification, we expect that they may be more inclined to act in prosocial ethical ways that put the organization's reputation, image, and integrity above other concerns. As Fiol (2002) points out, this can become self-reinforcing behavior. Behaviors of cooperation and extra-role activities that connect the individual more strongly to the goals and image of the organization simultaneously bind the individual's identity more closely to the organization. This tight association may increase the employee's trust in the organization overall.

This trust becomes crucial when employees face ethical choices within the organization. Ethical choices, by definition, are fraught with uncertainty about how to weigh personal, direct, and immediate consequences, with organizational, indirect, and long-term consequences. Further, because organizations are complex social entities, it is not always immediately obvious how the organization would prefer the employee to respond, especially in murky situations that are not amenable to an instrumental, rule-based decision calculus. If the employee has strong identification with that organization, then the employee may be more confident that he or she can divine what actions the organization would prefer in a given situation, and the employee may have more motivation to uphold that organizational preference. Thus, only when the employee trusts that the organization will support such decision making will the identification result in prosocial ethical behaviors. Put simply, employees who identify strongly with the organization will want to act ethically to help the organization. Given the above rationale, we hypothesize the following:

H2: Employees who report strong identification with their organization are more likely to respond in a more ethical manner when confronted with an organizational dilemma than employees who report less identification with their organization.

While organizational identification may be valuable in its own right for encouraging ethical decision making among employees, we argue that it is especially useful when other structural policies and procedures are absent, as in smaller or newer firm. Larger firms are less dependent on individual relationships to the firm in order to facilitate an ethical climate. As the U.S. sentencing guidelines illustrate, there are many formalized policies, procedures, and training programs available to the larger, older, firms that can afford them, in terms of time, financial resources, and human resources. But in smaller and younger firms, which probably lack such formalized systems, an individual's strong bond of organizational identification may be an important component to building an ethical climate for decision making. Thus, we expect that organizational identification may moderate the relationship between firm size and age and employee decision making.

H3: The effect of firm size and age on the extent of ethical response is moderated by the strength of the employee's identification with their organization.

Methods

Sample

Our sampling frame consisted of 638 working professionals who were current MBAs at a university in the Southeastern region of the United States. We sent emails to these individuals requesting they complete a survey instrument. A total of 154 students responded by filling out all items, generating a response rate of 24 percent. Twenty-nine percent of the companies the respondents worked for employed less than 200 people and 19 percent of the firms were nine or less years old. Eighty-one percent of the sample worked in the service sector, while 19 percent worked in the manufacturing sector. Finally, 68 percent of the individuals were between 25 and 35 years old, and 61 percent of the sample was male and 39 percent female.

Measures

Dependent Variables. Ethical decision-making constructs are generally measured using hypothetical vignettes to illustrate various compliance situations that employees might encounter (Barnett and Vaicys 2000; Buchan 2005; Rothwell and Baldwin 2006). Asking respondents about hypothetical scenarios, rather than about actual behavior, reduces demand effects caused by the desire to avoid questionable choices or choices that might lead them to get in trouble.

We, therefore, constructed a vignette involving a potential

ethical compliance situation to measure the extent to which the individual exhibited ethical compliance behavior (see Figure 1). The vignette focused on a breach of confidentiality situation, raising the dilemma of whether to report a colleague who had shared confidential information inappropriately, and if so, how to go about reporting it. We told the subjects to respond to the vignette assuming it had just occurred and it involved their current employer. The person chose one of 6 different possible actions, ranging from one that was patently compromised to one that represented pure compliance. The response choices were presented in random order. Responses were then coded, ranging from 1 to 6, with 1 representing the patently compromised choice and six representing pure compliance. Thus, the scores on each vignette were used to rate the respondent's propensity to act in an uncompromised compliance manner. Higher scores on this measure indicate greater willingness to select an ethical response. The survey presented the vignette first to reduce any cueing effect that the organizational identity questions may have had on the respondents.

Independent Variables. The organizational structure dimensions of firm size and firm age are known to covary in practice (e.g., Scott 1998). Consistent with this, the reliability score for these two dimensions is 0.66 in our sample. In addition, we relied on similar underlying theoretical arguments to hypothesize a relationship between these two organizational structure dimensions and ethical decision making. Therefore, we collapsed firm size and age into a single variable, labeled "size/age," for theoretical and statistical clarity. To capture size/age, we first assessed each firm's age. If the firm was nine years old or less, we coded it with a one, indicating the firm was still likely to be in the adolescent stage. Older firms were coded with a two. Next, we divided firms into one of two categories based upon size. We coded firms with less than 200 employees with a one and firms with 200 employees or more with a two. We then combined the size and age items into one variable by adding them together and dividing by two. High scores on size/age indicate the firm is larger and older than other firms in the sample.

We measured organizational identification using six Likert-type items developed by Gioia and Thomas (1996). The six items in our sample generated a Cronbach's alpha of 0.84, consistent with Gioia and Thomas' reported alpha of 0.82. We also performed a factor analysis using principal components analyses with a varimax and promax rotation as well as maximum likelihood extraction using varimax and promax rotation. All methods generated a one-factor solution, confirming that the six items in the organizational identification scale are a measure of a single construct. We added the six items and divided by six to calculate the variable.

Controls. As past research indicates that gender might influence compliance (Hoffman 1998; McDaniel, Schoeps, and

Lincort 2001; Peterson, Rhoads, and Vaught 2001; Schminke 1997), we included it as a control variable. Males were coded as “1” and females as a “2.” Similarly, we controlled for each respondent’s age because age may affect level of compliance (Peterson et al. 2001). As described in Figure 1, we divided age into five categorical variables, where the lowest numbers represent the younger respondents.

Analyses

We employed hierarchical multiple regression to examine the study’s hypotheses. Using ethical compliance as the dependent variable, we conducted the analysis in three steps. First, we controlled for respondent age and gender in step 1, and then entered the independent variables, size/age and identification in step 2. Finally, in step 3, we entered the interaction term, size/age X identification, to determine if it had

Ethical Compliance

To measure compliance, we analyzed individuals’ responses to the following vignette.

Last week you had lunch with a close colleague and his wife in a local restaurant. During lunch, your colleague describes an upcoming working trip to Buenos Aires, Argentina, and reveals that the purpose of the trip is acquiring Sonos Enterprises, a competitor that is headquartered there. His wife expresses interest in the business and casually adds that her aunt is always looking for a great investment. As a result of the lunch conversation, you would most likely:

- A) After considering the conversation, pull your colleague aside and suggest that he file a report indicating that he may have released nonpublic information. (score = 2)
- B) After considering the conversation, discuss it in detail with your supervisor. Your supervisor tells you that such a conversation would damage the reputation of the entire company and to keep it to yourself. You report the conversation. (score = 6)
- C) Report the conversation directly without seeking any other person’s advice. (score = 5)
- D) After considering the conversation, discuss it hypothetically with your supervisor. Your supervisor says that it is in the past and the news will come out eventually and not to worry about it. You, therefore, don’t worry about it and don’t proceed further. (score = 3)
- E) Do nothing. (score = 1)
- F) After considering the conversation, discuss it in detail with your supervisor. Your supervisor tells you that you must report the colleague. You report the conversation. (score = 4)

Identification

To measure identification, we used the scale below. Individuals recorded their response to each statement using a 1-to-5 scale, ranging from strongly disagree to strongly agree.

1. People who work for my current employer, ranging from top managers down to entry-level employees, identify strongly with the company.
2. When someone criticizes my current employer, it feels like a personal insult.
3. I am very interested in what others think about my current employer.
4. When I talk about my current employer, I usually say “they” rather than “we.” (Reverse coded)
5. My current employer’s successes are my successes.
6. If a story in the media criticized my current employer, I would feel embarrassed.

Age

We used the following scale to measure age:

- 1 = individual is less than 25 years old
- 2 = individual is between 25 and 30 years old
- 3 = individual is between 31 and 35 years old
- 4 = individual is between 36 and 40 years old
- 5 = individual is between 41 and 45 years old
- 6 = individual is over 46 years

Figure 1. Vignette

additional explanatory power beyond the control and independent variables. Consistent with past research (Aiken and West 1991), to capture the interaction of size/age and identification we first centered and scaled each variable and then multiplied them together to compute their product. We examined the coefficient for the variables after we performed all steps and standardized the variables to compare their relative impact.

Results

Table 1 displays the intercorrelations among the study’s variables. All correlations were below .50, suggesting multicollinearity is not a problem. Table 2 provides the result of the hierarchical regression analysis. The full equation was significant (adj. R2 = .12, p < .001). As predicted, size/age was positively and significantly associated with the ethical compliance (β = .33, p < .001), supporting Hypothesis 1. Hypothesis 2, that identification was directly related to ethical compliance, was not supported (β = .03, n.s.). The interaction of size/age and identification was significant (β = -.15, p < .05), supporting Hypothesis 3. The control variable, age, was positively related to ethical compliance (β = .12, p < .10) at the 10 percent level of significant, which indicates that older respondents were more likely to select a more ethical compliance choice than younger respondents. The coefficient for gender was not significant (β = .09, n.s.).

Discussion and Conclusion

Academics, public policymakers and executives are all searching for ways to improve the ethical and compliance behavior of organizations. We believe that organizational context may be a key factor in ethical compliance behavior. Not all organizations face the same environmental pressures and survival challenges. One critical distinction is organizational size/age. Smaller firms have more intimate relationships, fewer formal control structures, and fewer resources to invest in systematic plans to guide ethical behavior and to

Table 1. Means, Standard Deviations, and Correlations

Variables	Mean	Std. Dev	1	2	3	4
1. Compliance	2.55	1.32				
2. Size/age	1.26	.37	.32**			
3. Identification	3.56	.86	.01	-.07		
4. Individual age	3.04	1.19	.10	.00	.02	
5. Gender	1.39	.49	.03	-.08	.12 [†]	-.19 [†]

† p = < 0.1, * p = < 0.05, ** p = < 0.01, *** p = < 0.001
n = 154, One tail tests results are reported

Table 2. Results of Hierarchical Regression Analysis

Compliance			
Predictor Variable	Model 1	Model 2	Model 3
Step 1: Controls			
Individual age	.11 [†]	.11 [†]	.12 [†]
Gender	.05	.08	.09
Step 2: Independent			
Size/age		.33***	.33***
Identification		.03	.01
Step 3: Interaction			
Size/age*Identification			-.15*
ΔR ² , change from prev. model		.11	.02
ΔF, change from prev. model		9.07***	3.78*
R ²	0.01	.12	.14
Adjusted R ²	0.00	.10	.12
F	.94	5.06***	4.88***

† p = < 0.1, * p = < 0.05, ** p = < 0.01, *** p = < 0.001
n = 154, One tail tests results are reported

ensure compliance. Similarly, younger firms, which are still experiencing substantial entrepreneurial risks and constraints (Aldrich and Auster 1986), may have very different orientations towards compliance norms. In particular, the high stakes involved in sustaining a new business, given the well-documented liabilities of newness and legitimacy, present extraordinary pressures for generating sufficient positive cash flow for survival through each quarter. These pressures, arguably, focus the firm on short-term goals and may encourage shortcuts that skirt the edges of compliance. We hypothesized that smaller and younger firms may be less successful in creating climate of uncompromised compliance behavior than larger, older firms because the firm’s attention is so intensely oriented on short-term survival and these types of organizational lack access to formal structural guidelines (Neubaum, Mitchell, and Schminke 2004).

In addition to the influence of firm size/age on ethical compliance choices, another motivator of more ethical compliance choices may be the extent to which the employee experiences a strong identification with the organization. When employees report strong organizational identification, they exhibit behaviors inside the firm that reflect their personal loyalty and commitment to the firm (Ashforth and Mael 1989; Mael and Ashforth 1992, 1995; O’Reilly and Caldwell 1980). We expected that this would extend to the realm of

ethical compliance behavior. We hypothesized that employees who report strong organizational identification were more likely to indicate that they would act in an uncompromising manner to protect the organization in situations that require a judgment about how vigilantly they would respond in an ethically challenging business vignette. Further, we expected that identification would not affect firms of differing sizes and ages in the same way.

To address the hypothesized relationships, we received survey responses from 154 working professionals enrolled in a top-ranked part-time MBA program in the southeastern region of the United States. We found that organization size and age were strongly associated with ethical compliance, supporting our first hypothesis. When firms are small and young, their employees are less attentive to ethically rigorous standards of compliance, relative to larger, older firms. This may be the result of the extreme competitive pressures that smaller, younger, firms face. These types of firms may be more concerned about survival, rather than superior performance. A survival orientation, arguably, is more drastic and the immediacy of the issues faced by managers in these firms may divert attention from longer term issues of ethical codes of conduct. Similarly, these firms may lack standardized policies and procedures to guide ethical compliance choices that larger, older firms have the opportunity to institute.

While our predictions about the effects of organization size and age were supported, we were surprised by our findings about organizational identification. In our sample, we did not find a direct relationship between employees' identification with the organization and their willingness to support the organization via a more ethical compliance choice. Although identification has been demonstrated to instill more organizational loyalty and commitment in other studies (e.g., Ashford and Mael 1989; Mael and Ashforth 1992, 1995), it does not influence the specific incidence of ethical compliance choice in our research. One explanation for this finding is that it is not clear to employees which choice is in the best interests of the organization. This may be a feature of ethical dilemmas in general, especially in the absence of an organizational code of ethics, but it may also be an artifact of the specific ethical vignette that we used. Clearly, there is more future research to be done to understand more closely the dynamics and ramifications of this finding.

Despite the finding of no overall effect of organizational identification on ethical compliance choice, our hypothesis that identification did not equally affect firms of different sizes and ages was supported. However, our results highlighted a peculiar effect. Organizational identification affected only larger, older firms. In these established organizations, employees who expressed greater identification with their organization were *less likely* to select the more ethical compliance choice (see Figure 2). Instead, this group was more

likely to select a decision that kept the problem within a small circle of peers and colleagues, either discussing the problem directly with the offender, or deferring to the judgment of the direct supervisor, which may supersede the best interests of the firm, overall. In these instances, the respondent was reluctant to use a more final, direct solution that ensured that the problem could not be covered up. Thus, we did find that organizational identification moderates the relationship between organization size and age and ethical compliance choice, but not in the direction expected. Instead, it appears that employees who identify strongly with their firm, when the firm is large and established, are not willing to select an choice that makes them feel uncomfortable with their immediate peers, even if the choice is good for the firm, overall.

Our findings suggest several implications for managers, policymakers and management researchers. With respect to managers of smaller, younger firms, the ethical choices of their employees may need closer control and monitoring. Certainly, many small, young firms are extremely ethical. The implications of our findings, however, are that, on average, smaller, younger firms have weaker ethical expectations than their larger, older counterparts. Many entrepreneurs decide to found their own firms to escape the bureaucratic red tape they experienced in larger firms. Without these bureaucratic control systems for ethical conduct, however, the founder must assume yet another responsibility to embody personally the ethical code of conduct that he or she wishes to instill in the firm. Under these circumstances, the entrepreneur must make active, special efforts to clarify and convey his or her ethical expectations for the firm, rather than assuming that individual employee characteristics, such as a strong identification with the firm, are going to be adequate for guiding ethical choices.

Policymakers, who are anxious to motivate ethical behavior, may consider funding more special services for smaller and younger firms. For example, the U.S. Small Business Association's (USSBA) website lists eight categories of services it provides, and underneath each of these categories is a list of four to nine subcategory hotlinks, except for compliance, which has no subcategories. It appears that the services related to compliance are less developed and specialized than other services such as "financial assistance" and "disaster assistance." The USSBA does offer an online training and tutorial to help small businesses establish a compliant, ethical environment. However, given the extent of pressing concerns that small business managers face, as witnessed by the many rich categories of services provided by the USSBA, we are not confident that these managers will seek out specific assistance in building an ethical climate. We recommend developing targeted outreach programs that might deliver ethics training directly to small and young businesses

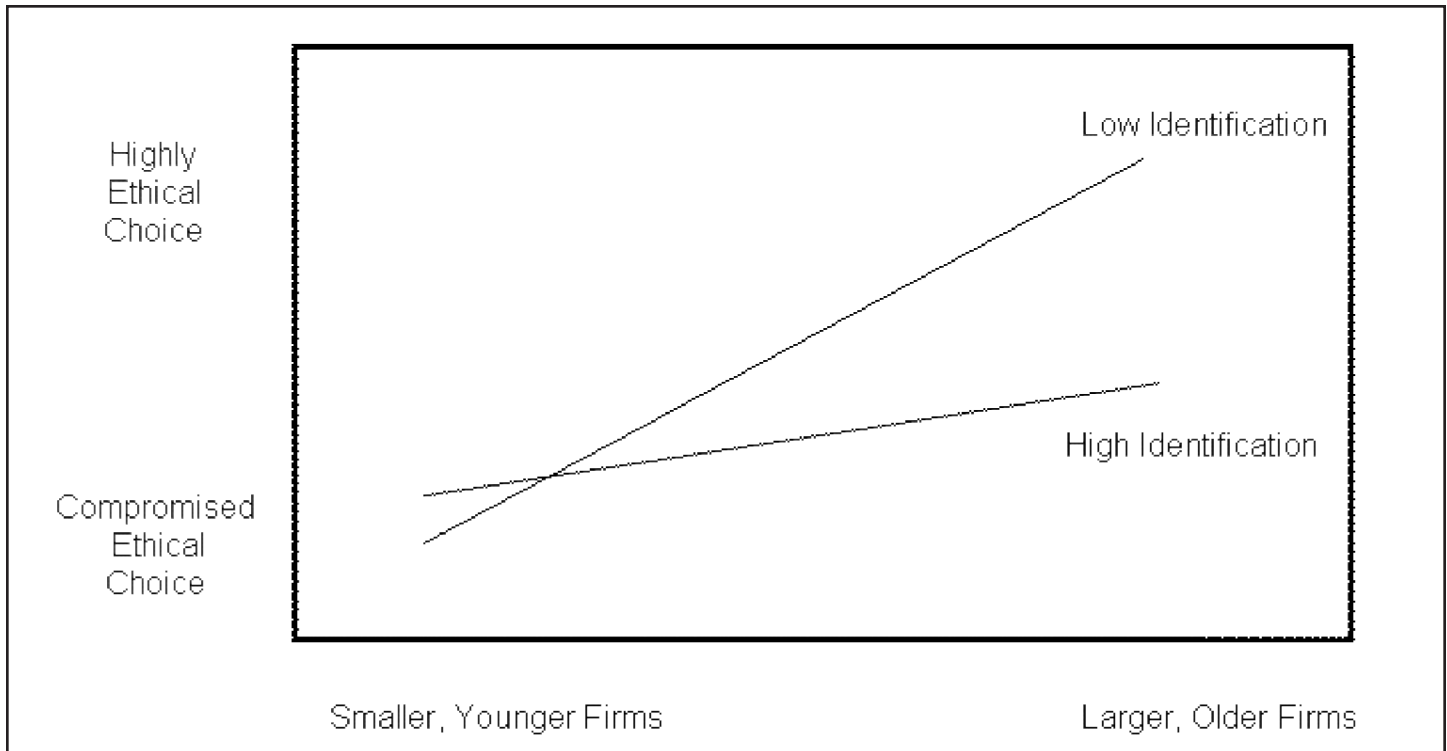


Figure 2. Interaction of Identification with Size/Age on Ethical Compliance Choice

because, as we know, imprinting is a strong factor in organizational evolution: cultures and values that are established early in firms are likely to be sustained as the firms age and grow (Ciavarella 2003; Stinchcombe 1965).

Management researchers should continue to examine the effects of organizational size and age on ethical decision making. Specifically, we believe that our research could be extended by studying a broader range of ethical vignettes. Also, we believe that future studies could include an explicit measurement of the presence of formal ethical controls such as codes of conduct and other compliance systems such as ombudsmen, anonymous ethical reporting channels, and human resource training in ethical choices. In our research, we assumed that these formal systems were more likely to be present in larger, older, firms. Although this assumption is warranted by other research (e.g., Kazanjian 1988), the theoretical interpretation of our findings would be strengthened with an explicit measure of such systems.

We also look forward to future studies that examine the effects of organization identification more closely. Do employees who identify with their organization in larger, established firms, limit their ethical response to a localized, peer-involved

solution because their identification is primarily with that more direct social unit rather than to the whole organization? Or, conversely, do employees perceive the use of the purely unqualified choice that goes directly to upper management despite what the local supervisor might recommend, as a disloyal choice that may harm the overall firm in some way? As a similar instance, manufacturing plants that count numbers of safe work hours may inadvertently discourage the reporting of an injury or a safety incident, so that the safe work hours number is not jeopardized. Finally, our research was limited to U.S. managers, but it is possible that these effects vary across country lines (e.g., Vitell and Hidalgo 2006).

In conclusion, we find that smaller, younger firms experience less ethical decision making by their employees, when compared with employees from larger, older firms. Further, we find that employee's identification with the organization does not improve ethical choice in smaller, younger firms, and is associated with compromised ethical choices in larger, older firms. These findings highlight the vulnerability that smaller, younger firms face when trying to establish a highly ethical climate in their firms. Clearly, this area is ripe for more research to understand these influences more broadly.

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