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Editorial objectives

Electronic Journal of Business Ethics and Organization Studies EJBO aims to provide an avenue for the presentation and discussion of topics related to ethical issues in business and organizations worldwide. The journal publishes articles of empirical research as well as theoretical and philosophical discussion. Innovative papers and practical applications to enhance the field of business ethics are welcome. The journal aims to provide an international web-based communication medium for all those working in the field of business ethics whether from academic institutions, industry or consulting.

The important aim of the journal is to provide an international medium which is available free of charge for readers. The journal is supported by Business and

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Reviewing process

Each paper is reviewed by the Editor in Chief and, if it is judged suitable for publication, it is then sent to at least one referee for blind review. Based on the recommendations, the Editor in Chief decides whether the paper should be accepted as is, revised or rejected.

Manuscript requirements

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As a guide, articles should be between 2000 and 6000 words in length. A title of not more than eight words should be provided. A brief autobiographical note should be supplied including full name, affiliation, e-mail address and full international contact details as well as a short description of previous achievements. Authors must supply an abstract which should be limited to 200 words in total. In addition, maximum six keywords which encapsulate the principal topics of the paper should be included.

Notes or Endnotes should be not be used. Figures, charts and diagrams should be kept to a minimum. They must be black and white with minimum shad-

ing and numbered consecutively using arabic numerals. They must be refereed explicitly in the text using numbers.

References to other publications should be complete and in Harvard style. They should contain full bibliographical details and journal titles should not be abbreviated. References should be shown within the text by giving the author's last name followed by a comma and year of publication all in round brackets, e.g. (Jones, 2004). At the end of the article should be a reference list in alphabetical order as follows

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surname, initials and year of publication, title, publisher, place of publication, e.g. Lozano, J. (2000), *Ethics and Organizations. Understanding Business Ethics as a Learning Process*, Kluwer, Dordrecht.

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Conflict of Interest: The Common Thread Underlying Ethical Lapses

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Abstract

The purpose of this paper is to examine various industries for examples of conflicts of interest, and the resulting harmful ethical and managerial effects. All of these examples are well known, having appeared in various news sources. However, each incident has been viewed as an isolated case with no common lessons to be learned. The authors posit that, were it not for the presence of conflict of interest, these abuses might never have occurred.

Even the most ethical of people might succumb to temptation when the potential gains are large. It may be impossible to eliminate all conflicts of interest but reducing them will certainly enhance the chance that people will do what is right. Organizations that are truly concerned about ethics must first ensure that there are few conflicts of interest present. Of course, the same may be said about textbooks discussing ethics; first explain the concept of conflict of interest and show how it often produces unethical behavior and then talk about ethics.

Conflicts of interest

Conflicts of interest have caused a great number of problems in numerous areas and have been responsible for financial harm and injury to millions of innocent people. The following are just a small sample of some of the conflicts of interest that have helped undermine the public's faith and confidence in numerous institutions ranging from the securities industry to Congress. Attempts are being made now to curb some of the abuses that we are noting.

In the Boardroom

The compensation of CEOs should ideally be determined by a compensation committee consisting entirely of independent directors. This has not been the case in many firms and members of compensation committees have often had ties to the CEO (Henriques and Fabrikant, 2002). To make matters worse, the CEO was often involved in determining the compensation of board members, some of whom were on the compensation committee. Needless to say, this conflict of interest resulted in astronomical compensations for CEOs. In fact, whereas in 1973, the average compensation of a CEO in the United States was about 45 times more than the salary of the lowest paid employee; today, this ratio has skyrocketed to 500:1. In Europe, where management is just as effective, the ratio is 40:1 (Axtman and Scherer, 2002).

In Accounting Firms

The Enron/Arthur Andersen case demonstrated what can happen when an accounting firm earns fees for both consulting and auditing. Indeed, in many cases that have resulted in financial scandals, accounting firms such as Arthur Andersen earned considerably more money from consulting fees than from audits. It is difficult for auditors to be objective if this means that their firm will lose millions of dollars in consulting fees. Mills (2003: pp. 81-90) notes "CEOs found their accountants to be allies in the at-

tempt to exaggerate companies' financial performance." One key reason had to do with the fact that accounting firms were making a considerable amount of money from consulting. From 1977 to 2002 the auditing profession policed itself by the use of a "peer review" system. Needless to say, this system did not work. It did not result in even one negative report in the 25 years of its existence.

In Investment Banking Firms

There is a potentially severe conflict of interest when a securities firm is involved in both investment banking and research. The investment banking division would be quite upset if the research analysts were to advise clients not to purchase securities they were trying to sell. Mills (2003, p. 267) notes, "CEOs award lucrative investment banking contracts to banks in return, in part, for investment bankers influencing analysts to make favorable recommendations to investors on behalf of the CEO's companies." In fact, three major banks were concerned about the financial soundness of WorldCom in 2001 but had no problem recommending that their clients purchase \$12 billion worth of WorldCom bonds (Morgenson, 2004). One of them, Citigroup, settled with investors and agreed to pay \$2.65 billion to investors. This is the second largest settlement ever in a securities class action. What has emerged from this case is that Jack Grubman, the Citigroup analyst, was recommending the stock of Worldcom and other firms despite the fact that his firm had a very profitable investment banking relationship with them. Moreover, as if this were not bad enough, Grubman was very close to Bernard Ebbers, the CEO of Worldcom.

These conflicts of interest were responsible for the loss of trillions of dollars of market capitalization, a loss borne mainly by investors and pension funds. The Sarbanes-Oxley Act of 2002 has attempted to reduce or eliminate several of the above-mentioned conflicts of interest. This law requires that the CEO and CFO sign off on the firm's financial statements. In addition, an accounting oversight board was established to set au-

ding standards and keep watch over the accounting industry. A summary of the Act may be found at the American Institute of Certified Public Accountants website (AICPA, 2003).

It should be noted that the conflict of interest problem that occurs when a securities analyst works for a firm involved in underwriting initial public offerings (IPO) has been written about in academic journals (Dugar and Nathan, 1995; Rajan and Servaes, 1997; Michaely and Womack, 1999). The academic research indicates that security analysts who work for the underwriting firm are significantly more optimistic in their forecasted earnings for the IPO than analysts that have no connection to the company.

At the New York Stock Exchange

Richard A. Grasso, as chairman of the New York Stock Exchange (NYSE), in effect wore two hats: He was supposed to protect investors in his role as regulator but he also worked for the members of the NYSE. In fact, it was the members of the NYSE that paid Grasso the huge compensation package that ultimately forced him to resign.

In the Mutual-Fund Industry

The Investment Company Institute (ICI), the trade association consisting of several hundred major mutual funds, was successful in convincing Congress that it speaks for millions of shareholders and protects their interests. The reality was that the ICI also represented the companies that run the mutual funds. Some of the practices investigated in 2003 were late trading and market timing, practices that are beneficial to certain investors at the expense of everyone else. A new conflict of interest has come to light and is now being investigated by the S.E.C. It involves "pay-to-play," i.e., payments made by mutual fund companies to ensure that their funds are included in corporate 401(k) plans and retirement plans overseen by firms. It is now clear after the mutual-fund scandal, that the loyalty of the ICI was mainly with the companies, not the shareholders (Dwyer, 2003).

In the Insurance Industry

New York Attorney General Eliot Spitzer is suing Marsh & McLennan, the largest insurance broker in the world over their alleged collusion with the insurance companies in bilking clients. Marsh & McLennan has been accused of bid-rigging and price fixing. Phony, artificially-high quotes, referred to as "throwaway quotes," "protective quotes," "backup quotes," or "B quotes," were used to give the appearance of competitive bidding and customers were deceived into believing that they were getting good deals (Vickers, 2004). It is becoming apparent that the fraud and deceit was caused to a large degree by the conflicts of interest that arose because insurance brokers receive fees from clients and commissions from the insurers (Berenson, 2004).

In the Political System

The entire political system is replete with conflicts of interest. Special interest groups contribute to politicians and they in turn vote in a manner that helps these groups. It is apparent

that a key purpose for many campaign contributions is to influence the way legislators will vote. There have been complaints that major contractors such as Halliburton and Bechtel have spent huge sums of money on political influence and in turn allegedly been repaid with lucrative government contracts. Indeed, many politicians have received contributions from these firms and have allegedly repaid them with lucrative government contracts. However, it is not only corporations that seek to influence legislation by contributing to politicians and political parties. Organizations ranging from labor unions to the NRA to the AMA have contributed huge sums of money to politicians and political parties in order to influence the political process. Common Cause has a website that attempts to make the public aware of the numerous benefits provided to corporate special interests, i.e., corporate welfare (Common Cause, 2002). The purpose of the Bipartisan Campaign Reform Act law is to limit the influence of the wealthy special interest groups in the political process.

The chairman of the Senate Appropriations Committee is Senator Ted Stevens of Alaska. Since he has become chairman of the committee, federal spending per capita in Alaska is the highest in the nation (Rosenbaum, 2004). Approximately 4% of the overall spending in the Consolidated Appropriations Act of 2005 is for what is referred to as "earmarks," i.e., for pork barrel projects. In fact, Taxpayers for Common Sense, a watchdog group, claims that there are 11,772 pork projects in the Appropriations Act (Rosenbaum, 2004).

As Krugman (2004) points out, the head of the Environmental Protection Agency's Office of Air and Radiation previously worked for the industries involved in much of the polluting of the environment. These firms are among the very large donors to politicians and political parties. Putting the fox in charge of the henhouse has resulted in the easing of many restrictions, especially with regard to dangerous pollutants such as mercury. Krugman notes that 8% of American women have excessive amounts of mercury in their bloodstreams; this can be very harmful to fetuses.

Gerrymandering has made a mockery of the democratic process. Election district boundaries are redrawn in a way that gives one party an advantage. This is accomplished by drawing the boundaries in such a way that the opposition is in as few districts as possible. This explains why re-election rates are so high. Redistricting provides an unfair advantage in elections to the political party that draws the districts; it is a tool used to ensure that incumbents have little chance of losing an election. According to Drum (2004), "Computer optimized gerrymandering has taken us to the point where no more than about 5% of House seats are seriously competitive in each election. The rest are mere shams, not much more real than elections in Iran or the old Soviet Union." The cause of the problem is the conflict of interest that arises when election districts are drawn by legislators rather than independent bodies.

In the Pentagon

There have been complaints that individuals working for the Pentagon in the purchasing of weapons and other products from companies are later offered jobs from these same firms. A recent case involved an officer at Boeing who openly "discussed" a job opening with a Pentagon weapons purchaser (Holmes, 2003). Recently, Senator John McCain tried to have E.C. "Pete" Aldridge – formerly a weapons purchaser for the Pentagon and currently a member of the board of directors of Lockheed Mar-

tin, a major defense contractor – removed from a committee set up by the president to advise NASA on the best approach to explore space. McCain felt that the conflict of interest was too strong.

In Medical Journals

There are a number of conflicts of interest in the medical scholarship that have recently come to light. *Nature Neuroscience*, a major medical journal, announced that henceforth, authors of articles evaluating products would have to indicate whether they had any financial ties to companies making these products. There was a case in which the author of a review article describing “promising” new therapies for depression stood to gain financially (he owned shares in the company associated with one of the therapies and was a board member with stock options of another company whose product had been promoted by him) from the adoption of these treatments (Petersen, 2003).

In Medicine

Several years ago, *Consumer Reports* did a study on needless surgery (*Consumer Reports on Health*, 1998). One finding was that for some procedures the percentage of operations that were unwarranted was more than 50%! The problem of unnecessary surgery may very well be due to the conflict of interest a surgeon has when a patient is examined. Clearly, a surgeon stands to make considerably more money by recommending surgery than by informing the patient that surgery is not necessary. This is the reason that many HMOs require a second opinion before allowing surgery. Another conflict of interest may be present when doctors prescribe medication. If a doctor tells a patient to wait until the problem gets better on its own (which will happen in many cases), they make very little. If they prescribe drugs and/or send the patient to take expensive tests, they can have the patient return to discuss the results. With some prescription drugs, the doctor has to monitor the patient, which means additional visits. Another problem that should be noted is that the pharmaceutical companies often pay doctors for recruiting patients for drug trials. Some doctors have been able to earn hundreds of thousands of dollars in recruitment fees.

In the Pharmaceutical Industry

Pharmaceutical companies fund virtually all the research being done testing the efficacy of new drugs. The high price for a new drug ends when the patent expires, typically after 17 to 21 years. Since the drug companies make considerably more profit from new drugs than from older drugs, there is a serious conflict of interest. Pharmaceutical firms are mainly interested in funding studies that demonstrate that a new, patentable drug is effective. New drugs tend to be tested against placebos rather than existing drugs. This is done because a new drug is more likely to “beat” a placebo than an existing drug (Angell, 2004). An even more serious problem is that “according to a 1996 study published in the *Annals of Internal Medicine*, an amazing 98% of company-sponsored drug studies published between 1980 and 1989 in peer-reviewed journals or in symposia proceedings favored the funding company’s drug” (Bodenheimer and Collins, undated). Bodenheimer and Collins feel that this is due

to the conflict of interest that arises because the pharmaceutical companies fund the research that determines whether their drug is efficacious.

Topol (2004), in describing the decision by Merck to remove the arthritis drug Vioxx, after three years of denying that it could cause heart attacks, makes the following remark: “...despite studies showing the magnitude of the public health problem, for several years Merck did nothing to investigate. This surely represents a conflict between the interests of the public and the interests of a company with a blockbuster drug that had sales of \$2.5 billion in 2003.” Topol notes that the FDA should have forced Merck to conduct a study in order to determine whether or not Vioxx could cause heart attacks, but instead did nothing. The truth came out accidentally because Merck was conducting a study hoping to show that Vioxx could help patients with colon polyps.

Null et al. (2003) claim that the number of iatrogenic deaths in the United States is 783,936. They assert that many of the problems in the medical field are due to conflicts of interest. Null et al. cite the former editor of the *New England Journal of Medicine*, Dr. Marcia Angell, who has been demanding increased restrictions on financial incentives for medical researchers. Angell feels that growing conflicts of interest are tainting science.

Tyrone B. Hayes, a Berkeley researcher claimed that the pesticide manufacturer that sponsored his research tried to suppress it when it was demonstrating that its product had adverse effects on the sexual development of frogs. It turned out that the company sponsoring the research did have the final say as to whether the research could be published. Later on, the company tried to bribe Professor Hayes with a \$2 million lab if he would continue doing his research in a “private setting,” i.e., keep quiet about it (Blumenstyk, 2003).

Parkinson (2004) asserts that “when a single vested interest, for example a corporation, funds a research study on an area of relevance to them, that study is much more likely to yield results which favour the vested interest.” Parkinson also notes the problem that results in scientific research because negative results tend to be suppressed. Null et al (2003) also believe this to be the case and cite many sources supporting this view.

In Psychology

Goode (2004) discusses the conflict between the American Psychological Association (155,000 members) and the American Psychological Society (15,000 members). The latter organization was formed by researchers who broke off from the American Psychological Association because they felt that it was not scientific enough. A number of researchers, for example, feel that there is little evidence supporting the validity of the Rorschach inkblot test or the existence of repressed memories of childhood sexual abuse. They have been critical of various new untested therapies and labels such as sexual addiction and codependency. Each side has claimed that the other has financial interest in defending its point of view. It would appear that an impartial organization is needed to determine whether untested forms of psychotherapy are effective.

It has been noted – specifically in a Congressional hearing regarding Insurance coverage of mental health benefits – that the *Diagnostic and Statistical Manual for Mental Disorders* of the American Psychiatric Association, a catalog of mental diagnoses, contains a built-in conflict of interest: The individuals who determine the disorders to be included in the manual are

the ones who profit from it, since the DSM manual is used to provide diagnoses to insurance companies for reimbursement.

In the Food and Drug Administration

The Food and Drug Administration (FDA) is mandated by law to use independent experts to determine which medications should be approved, what information should be stated on warning labels, and in deciding how drug studies should be conducted. These experts are not supposed to have a financial stake in the drugs they are asked to evaluate. Amazingly, a study conducted by USA TODAY found that more than half of the experts used by the FDA have a financial relationship with the drug company whose drug they are asked to evaluate (Cauchon, 2000).

In high school guidance counseling. Winter (2004) describes how guidance counselors, who are supposed to be objective sources of information for high school students, are being wooed by colleges. These lavish perks may include skiing trips, vacations, golfing trips, going to the racetrack, luxurious rooms, fancy meals, tickets to sporting events and/or spending time at a spa, all with the hope that the counselor will recommend a particular college to students. It becomes very difficult to be impartial and provide reliable information when one has received numerous inducements that might even include a vacation for one's entire family.

In the Publishing Industry

College textbooks should be revised only when the information in an existing text is outdated. This decision should not be made by publishers who make little money from a textbook that has been around for a few years since students purchase used copies of the textbook. It is in the publishers (and authors) interest to revise a textbook as frequently as possible in order to maximize profits. In many cases, the major change in a new edition of a text is in the arrangement of chapters rather than in the addition of new material.

Voting Machine Testing

According to a New York Times editorial (2004) the federal labs that have the responsibility of ensuring that voting machines are reliable are for-profit companies that are selected and paid for by the firms that manufacture the voting machines. This is an obvious conflict of interest. What is interesting is that the same cannot be said of the lab that certifies gambling equipment. The Nevada Gaming Control Board lab is a state

agency so there is no conflict of interest here. There have been problems with voting machines that miscount and voting software that contains "back doors" that make it possible for elections to be stolen. Black Box Voting is a consumer protection organization for voting (see www.blackboxvoting.org).

Testing of Tasers

Police departments throughout the United States are using Tasers, a gun that fires barbs that deliver electric shocks, to subdue suspects. According to Berenson (2004), the number of people who have died from Tasers is at least 50. It is possible that the shock may be lethal for certain individuals, e.g., those with heart conditions or using pacemakers. According to Taser International, the manufacturer of the Taser, the gun is safe. However, safety studies were conducted by a company-paid researcher, not an independent testing lab. Furthermore, the tests were conducted on only one pig in 1996 and five dogs in 1999. Independent studies conducted in England, however, have not been able to support the claim that the weapon is safe.

Conclusion

The above examples reflect only the tip of the iceberg and demonstrate that the factor that has arguably produced the greatest most widespread management failure ever has been the presence of conflicts of interest. The problems that might be caused by ignoring conflicts of interest are not necessarily small. Marsh & McLennan lost \$11.5 billion of its market capitalization in just a few days after Eliot Spitzer announced his investigation (Vickers, 2004). Even if a firm is not under investigation for fraud, it cannot run efficiently if there are serious conflicts of interest present. Corporate America pays a heavy price for rigged markets. Think of all the additional costs that are the result of corruption in the insurance industry. Many firms cannot afford the high cost of health insurance. These additional expenses make corporate America less competitive in the world economy.

Where are the valuable lessons to be learned regarding the effects of conflicts of interest? Not in our business schools. In what might be the most egregious omission, management textbooks either have nothing to say about conflicts of interest or no more than a paragraph.

Conflicts of interest are more than an ethical issue: They are quite possibly the major obstacle confronting effective management today. The first task of a firm that is interested in running efficiently is eliminating or reducing the presence of conflicts of interest.

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The Utility of Offshoring: A Rawlsian Critique

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Abstract

Most prominent arguments favoring the widespread discretionary business practice of sending jobs overseas, known as 'offshoring,' attempt to justify the trend by appeal to utilitarian principles. It is argued that when business can be performed more cost-effectively offshore, doing so tends, over the long-term, to achieve the greatest good for the greatest number. This claim is supported by evidence that exporting jobs actively promotes economic development overseas while simultaneously increasing the revenue of the exporting country. After showing that offshoring might indeed be justified on utilitarian grounds, I argue that according to Rawlsian social-contract theory, the practice is nevertheless irrational and unjust. For it unfairly expects the people of a given society to accept job-gain benefits to peoples of other societies as outweighing job-loss hardships it imposes on itself. Finally, I conclude that contrary to socialism, which relies much more on government control, capitalism constitutes a particularly strong moral obligation on corporations themselves to refrain from offshoring.

Those most in favor of offshoring tend to argue that the practice is economically advantageous to everyone over the long-term. Thomas Friedman argues that this insight should compel every nation to adopt a set of policies promoting international trade by freeing up the private sector and removing restrictions to foreign investment. On this view, the long-term economic returns of free trade demand that governments reduce their regulatory control over their respective economies, thus mutually consenting to do what he calls a 'Golden Straitjacket.'¹ While Friedman supports this free market solution in which, as he puts it, 'no one is in charge,'² the utilitarian ethicist Peter Singer advocates a more democratic solution requiring the expansion of global governmental regulatory bodies necessary to ensure the equal consideration of interests.³ Implicit in both of these positions is the normative assumption that no government should prioritize its own citizens' interests in job security over those of the citizens of any other nation. To accept this turns out, on their view, to create the policies that best satisfy the interests of all, thereby achieving the greatest good for the greatest number.

Rawls however provides good reason to consider such an attitude irrational and unjust. Although to my knowledge he never addresses offshoring specifically, it seems a paradigmatic example of why he condemns utilitarianism in general for risking marginalizing the interests of the least advantaged members of society in favor of the best total balance of pleasure over pain.⁴ For in Rawlsian terms, offshoring conducted merely as a discretionary practice unnecessary to sustain commercial success, excessively increases the expectations of some, namely the stockholders, at the expense of stakeholders facing the prospect of job loss.⁵ Furthermore, with respect to the added benefits offshoring offers job-seekers abroad, Rawls unambiguously states in *The Law of Peoples* that no people is prepared to count the benefits for another people as outweighing the hardships imposed on itself.⁶

In what follows, I first attempt to show that discretionary offshoring may indeed be justified on utilitarian grounds.

I then argue on Rawlsian grounds that the practice is nevertheless unjust. Finally I conclude, somewhat ironically, that contrary to socialism, which relies much more on government control, capitalism constitutes a social contract that places a particularly strong moral obligation on corporations themselves to refrain from offshoring.

The Goal of Greatest Global Growth

Proponents of offshoring tend to defend it on the grounds that it is the surest and fastest way to increase the GDP (Global Domestic Product) of every nation worldwide. In other words, it maximizes global average and median GDP. It is therefore generally said to be a 'win-win game.'⁷ Such assessments of course overlook the possibility of facilitating human rights and environmental abuses as a result of outsourcing to on-site facilities in lesser-developed countries with little or no regulatory oversight. Furthermore, in the absence of social safety nets for stabilizing the boom and bust patterns of the free market, offshoring might come at too great a human cost. But such situational contingencies notwithstanding, if offshoring can generally be shown to maximize global economic value, it can be justified on purely economic utilitarian grounds. For although offshoring obviously creates immediate job-winners at the expense of immediate job-losers, so long as it tends to increase global average and median economic value over the long term, it continually stimulates job growth. And since, according to utilitarianism, everyone's interests should be taken into consideration equally, being American grants no greater moral claim to gainful employment than does being Indian, Malaysian, Chinese, Vietnamese, Cambodian, or Bengali. For as Singer famously puts it:

It makes no moral difference whether the person I help is a neighbor's child ten yards from me or a Bengali whose name I shall never know, ten thousand miles away.⁸

So if I were to decide for example, as upper level manager of my local community hospital, to fire my neighbor, a father

and radiologist whose job can now be outsourced electronically to India⁹, it would seem there is no moral difference between doing so at his expense and not doing so at the expense of an unemployed Indian radiologist whose name I may never know, ten thousand miles away. And since offshoring the job costs a lot less than keeping it local, as a utilitarian I may very well see the ends as justifying the means, especially if it can be shown that by extension, doing so also increases the value of both the U.S. and Indian economies, thereby creating more jobs at home and abroad.

At this point, let us turn to specific data on how offshoring has affected economic growth and job creation internationally over the last few years. The McKinsey Global Institute, research arm of McKinsey & Co. Management Consulting, recently published a revealing analysis on the economic benefits of offshoring. First of all, according to MGI, offshoring reduces labor costs dramatically. For example, the equivalent of a software developer who costs \$60 an hour in the U.S. costs only \$6 an hour in India. Similarly, a data entry agent who costs \$20 an hour in the U.S. costs only \$2 an hour in India. Furthermore, less desirable jobs in the U.S. are often seen as more desirable in lesser-developed countries. As a result, foreign workers are often more motivated and thus outperform their U.S. counterparts. In addition, companies are using a portion of the added savings as an opportunity to drive revenue growth. For example, by leveraging cheap labor, airlines are now more able to chase delinquent accounts receivables. Similarly, computer manufacturers are increasing market penetration by offering more services. As a result, by offshoring, many companies are creating far more value from increased revenues than from reduced costs.

U.S. businesses dominate the global share of offshoring, accounting for some 70 percent of the total market. Europe and Japan dominate the remainder, with the U.K. as a dominant player. Both the U.S. and the U.K. have liberal employment and labor laws, facilitating offshoring (MGI). There is potential to offshore a very wide variety of functions. The principal criteria for successful offshoring are that the functions can either be digitized or handled by telephone, and that appropriate skills are available or easily developed at the offshoring center. The first jobs to be offshored are lower value jobs such as call centers, back-end processing and accounting. But higher value work has since been added to the list. Examples include software maintenance and development, aerospace component design and pharmaceuticals research. As the chart below indicates, the range of jobs offshored successfully is substantial and widening continually (MGI).

As it stands, jobs are mostly offshored to countries where English is either the main business language or where there are large English-speaking populations. Thus Canada, India, Ireland, Israel, Australia, South Africa, and the Philippines have all proved particularly attractive. Offshoring is expected to grow at the rate of 30 to 40 percent a year over the next 5 years. Forrester, a leading analyst, projects that the number of U.S. jobs offshored will grow some \$136 billion in wages. Of this total, Forrester expects 473,000 jobs from the IT industry to go offshore over the next twelve years, representing 8 percent of all current IT jobs in the country, or 200,000 jobs a year (MGI). The chart below indicates primary offshored destinations worldwide, including the market share of the main job importing countries since 2001.

Given that the rate is likely to increase 30 to 40 percent over the next five years, we can adjust these numbers accordingly to obtain a more accurate estimate of the situation today in 2005. For example, assuming a conservative 35 percent growth rate, India, which carried 7.7 percent of the market in 2001, is likely to be carrying closer to 22 percent today.



As it stands, over the last two decades, in the wake of the North-American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT), the U.S. has already shifted away from manufacturing toward what is now mostly a service economy. That is to say, 70 percent of the economy is now composed of services such as retail, restaurants, hotels, personal care services, construction, education and the like. These services are necessarily produced and/or consumed locally and therefore cannot be offshored (MGI). But offshoring most of the remaining 30 percent of the economy, would substantially increase the value of the U.S. economy as well as that of the importing country. The data suggests that \$1.45 to \$1.47 worth of value is created globally from offshoring every \$1.00 of U.S. labor costs. Of that total, the U.S. recaptures \$1.12 to \$1.14, while the receiving country captures, on average, 33 cents (MGI).

But completely converting to a service economy means not only a narrower array of career choices for Americans residing in the U.S., but also that many of the most desirable jobs will be among those no longer available. As chart, 1. above indicates this includes highly skilled and highly paid 'white-collar' jobs in the IT industry. Forrester now expects 3.3 million U.S. jobs will be exported by 2015, including software design¹⁰. In fact, Forrester also reports that 85 Indian software companies have already received a level 5 Compatibility Maturation Model Rat-

OFFSHORING OPPORTUNITIES ACROSS THE ORGANIZATION



ing (CMM) which is the highest rating. By comparison, only 42 other organizations worldwide have achieved that rating¹¹. Increasingly, as highly skilled workers become available in less-developed countries, most anything that can be physically accomplished at a distance, can be profitably offshored. This includes researchers, designers, data analysts, administrators, accountants, consultants, publishers, writers, and various management positions overseeing offshored functions.

Those who support offshoring might point out that the practice only represents a relatively small percentage of job-loss when compared to the total yearly turnover. But one must remember that offshored losses are likely permanent. As competition for white-collar jobs grows abroad, the bulk of jobs remaining in the U.S. will increasingly be limited to those requiring face-to-face interaction. Even this currently modest rate of loss markedly limits the future career prospects of today's U.S. high-schoolers and substantially increases their anxiety about finding a career with any future.

Unfortunately, a hard look at the facts reveals that the wealth created from offshoring does not entirely offset the hardships it creates for many of those affected. According to the Bureau of Labor Statistics, from 1979-99, 31 percent of jobs displaced by trade were not fully reemployed. While some workers were able to find higher-paying jobs, most did not. The statistics reveal that 36 percent of displaced workers soon found jobs that matched or increased their wages, but 55 percent reached no more than 85 percent of their former wages. And as many as 25 percent saw pay cuts of 30 percent or more (MGI). A partial solution commonly offered to this problem is a government or business-funded insurance program that would cover wage loss for reemployed full-timers and cover 70 percent of wage loss and full medical benefits during unemployment for up to 2 years. It is estimated that such an insurance scheme would cost no more than 4 to 5 percent of savings¹². Still, this would not necessarily fully compensate offshored workers since they may never succeed in obtaining equally rewarding work at equivalent pay. In addition, there are the intrinsic hardships of forced career change to take into account, such as insecurity, time, effort, and costs associated with choosing a new career and obtaining the requisite level of employment, which for the white-collar sectors are substantial. Imagine the difficulty of, say, a middle-aged parent going back to college for another graduate degree while living on a diminished income, then searching for a job two years later, still having to pay-off the college loan. These are real stresses, indeed struggles, to be incurred broadly across the middle class. But offshoring advocates such as Diana Farrell, President of MGI, sternly reply that globalization demands that we embrace lives of constant retraining. "We live in an economy of not only change," she says, "but of ever-more rapid change, and the expectation that you can hold one job for 20 years is not a realistic expectation."¹³ One cannot help but wonder if she will feel the same when her own consulting job is outsourced to an economist in India. Even if she herself is able to retire comfortably at that point, the market result may seem like a raw deal to newly minted American BAs in economics, unless of course they're open to making the transition—to India.

This is certainly a very demanding, indeed even altruistic, economic ideology. But looking back over all the data provided, there seems to be precious little to reproach it on purely utilitarian grounds. Summing up, offshoring increases global economic value, thus creating jobs for those who need them. Although most of the job creation is abroad and comes at the expense of domestic job losses, new domestic jobs in non-offshorable service sectors will eventually be created to compensate for those

losses. Furthermore, according to utilitarianism, all interests should be considered equally. So assuming sweetened severance packages including extended unemployment and health insurance is granted to offshored American workers, offshoring would indeed seem to achieve the greatest good for the greatest number. Utilitarianism demands that we be completely impartial to the best total balance of pleasure over pain. So if the total measure of happiness in the world can be increased by certain people sacrificing some of their own happiness, the result is entirely acceptable. Since the sacrifice in this case is rather significant, offshoring is not a moral duty. But it would seem nevertheless to maximize utility given the general circumstances above-mentioned.

The Goal of Genuine Impartiality

Rawls insightfully demonstrates, in *A Theory of Justice*, that utilitarianism "mistakes impersonality for impartiality"¹⁴. What he means by this is that instead of defining impartiality, as utilitarians do, from the perspective of a sympathetic observer of everyone's interests, one should define it from the perspective of the persons themselves with their own individual preferences, in an original position of equality. Only then can genuine impartiality be achieved by guaranteeing that no individual will have to bear a greater sacrifice than absolutely necessary for the establishment of a just society. Thus, according to Rawls, utilitarianism impersonally overlooks and subordinates individual preferences in favor of the greatest total balance of pleasure over pain. According to Rawls, this mistake happens because of the utilitarian assumption that the only way everyone's moral judgments can be brought into agreement is through our natural capacity for sympathy. As he puts it "the approvals of the impartial sympathetic spectator are adopted as the standard of justice, and this results in impersonality, in the conflation of all desires into one system of desire"¹⁵. This conflation, he argues, is irrational and unfair, for it would never be freely agreed to by anyone from a genuinely impartial standpoint of self interest, that is, before knowing what specific socioeconomic position one may actually end up in.

If we apply this standard of impartiality to the case of offshoring, we immediately arrive at some interesting results. Imagine being in the Rawlsian 'original position' of determining the norms of a just society, i.e. its social contract, not knowing what particular socioeconomic status one's fortune will bring. From this standpoint, everyone would make sure to set up a society in which no one would be more disadvantaged than absolutely necessary to insure equal opportunity. Inequalities would thus be allowed so long as they worked to the greatest interest of the least advantaged, by for example, instituting differentials on the basis of merit. Now, imagining oneself in this position, Rawls would ask if anyone would welcome being born at random into a society such as ours in which the dramatic aforementioned offshoring trends occurred? In other words, would a rational self-interested person prefer to randomly enter at birth into a society identical in every way to ours, but one in which such trends did not occur? If we think seriously about the economic hardships, the instability and the insecurities incurred broadly across the middle class from lives of constant retraining, I think it's quite clear such a prospect would be rather unappealing. Indeed, it becomes apparent that the utilitarian goal of greatest global growth disproportionately benefits a smaller number of upper-class stockholders at the expense of a much larger number of working-class stakeholders facing the prospect of job-loss. And

as for poor families that will benefit from lower priced goods, they would clearly trade that in for a more secure professional future, especially since it is mostly their less desirable jobs which are ripe for offshoring.

A utilitarian is likely to reply at this point that this thought experiment conveniently excludes consideration of those workers abroad who stand to benefit from offshoring. If we imagined the possibility of being born into the current global situation in which more jobs are created overall, we may in fact agree that this benefit is worth the social costs of constant retraining, even if they are ultimately incurred worldwide. In other words, a person facing the prospect of being born randomly into an underdeveloped job-importing country such as India may accept the costs of living a life of constant retraining as outweighed by a higher chance of escaping poverty. This is where the social contract theorist (or contractarian) parts company with the utilitarian. A contractarian considers it entirely irrational not to root rights and obligations in a collective social contract by, for, and of, a community of litigants. For it is only in the interest of collective agreements and enterprises that any institution is founded. Thus, the institutions created in the interests of a given nation are entirely beholden to the citizens of that nation. Accordingly, individuals and organizations within a nation participate according to a legitimizing collective social contract. Hence we erect public and private institutions entirely on the basis of national interest. The taxes we pay to fund education, infrastructure, private enterprise, etc. are provided exclusively for us—not for any other people. It therefore would seem absurd to turn over any and every offshorable job, which may often be quite desirable, over to the citizens of another country which have not participated in the slightest in the establishment of the network of social institutions necessary for the creation of those jobs. Rawls invites us to imagine the following example involving two different societies evolving over time:

*The first decides to industrialize and to increase its rate of real saving, while the second does not. Being content with things as they are, and preferring a more pastoral and leisurely society, the second reaffirms its social values. Some decades later the first country is twice as wealthy as the second...should the industrialized country be taxed to give funds to the second? According to the duty of assistance (in extreme cases of suffering) there would be no tax, and that seems right; whereas with a global egalitarian principle without target, there would always be a flow of taxes as long as the wealth of one people was less than that of the other. This seems unacceptable*¹⁶ (my parentheses).

So similarly, citizens of an industrialized society such as ours should not have to sacrifice good jobs that their own labor and industry produced in the interest of citizens of a more pastoral society such as India's who chose¹⁷ not to industrialize. Indeed the hardships associated with offshoring are likely to be much more burdensome than a graduated income tax to help underdeveloped countries industrialize. Essentially, the U.S. people are under no obligation to increase the availability of good jobs in other societies, and especially not if doing so means offshoring as much as 30 percent of the GDP, much of which is produced by chosen white-collar careers. If this seems to violate strong utilitarian intuitions, it is because those intuitions themselves are misguided. Again, quoting Rawls:

A classical, or average, utilitarian principle would not be accepted by peoples, since no people organized by its government is prepared to count, as first principle, the benefits for another people as outweighing the hardships imposed on itself. Well-ordered peoples insist on an equality among themselves as peoples, and this insist-

*ence rules out any form of the principle of utility*¹⁸.

Thus, on this line of reasoning, the widespread discretionary practice of sending jobs overseas is entirely irrational and unjust. A Rawlsian contractarianism would therefore recommend that businesses themselves refrain from offshoring unless necessary to maintain commercial success, e.g., if no satisfactory or affordable workforce is domestically available. And if businesses did not act accordingly on their own, that government regulations should intervene to keep the trend from continuing.

The Capitalist Social Contract

Interestingly, the more socialist-leaning economies of Europe, unified by the Euro (the UK conspicuously excluded) have little or no share of the offshoring market. Naturally, those economies are much more regulated by the hand of government. One therefore might expect those governments to mutually chose to inhibit the export of jobs to other countries outside the European Union. And indeed, this generally seems to be the case at present. By contrast, the more capitalist-leaning economies of the world such as the U.S., the U.K. and Japan have relatively liberal trade regulations and are thus, not surprisingly, the leading exporters of jobs.

Now, if we agree with Rawlsian contractarianism that discretionary offshoring is unjust, how should the more capitalist-leaning economies of the world work to minimize the trend? Obviously, they could erect new regulatory measures such as implementing a tax on offshoring companies proportionate to the value of the labor offshored and revoke the right of those companies to count the costs of offshoring as a non-taxable business expense. But given the amount of value still to be gained from offshoring even under those conditions, it is doubtful the trend would subside. In any case, capitalism constitutes a social contract in which the major portion of the economy is in private hands. Thus, contrary to socialism, in which the government retains a significant degree of ownership of economic value, capitalism leaves ownership and hence distribution much more in the hands of the private sector. As a result, business has a much greater degree of responsibility to voluntarily uphold its obligations to the collective social contract justice requires. For if it does not meet this responsibility it risks inviting governmental regulatory controls that will diminish its autonomy and profitability.

Capitalism operates on the fundamental belief that business does not function in a vacuum. That is to say, what's in the interest of business is ultimately in the interest of the people. But this basic tenet must also be understood in reverse: What's in the interest of the people is also ultimately in the interest of business. Hence, it is a particularly demanding social contract that implies a high degree of trust. And so when that trust is broken on a grand scale, in the corporate accounting scandals or late or in the current offshoring race, it compromises the people's faith in capitalism itself. Therefore, the continuing legitimacy of the U.S. economic system rests to a great extent on its business leaders taking business ethics seriously, indeed perhaps more seriously than their European counterparts. This means getting in the habit of reconsidering policies such as offshoring that tend to contrast, more than reconcile, private interest and public good. At this particular point in time, it means being prepared to challenge prevailing assumptions at the heart of a corporate culture.

¹ Thomas Friedman, *The Lexus and the Olive Tree*, Anchor Books, New York, 2000, pp. 104-106.

² Ibid, p. 112.

³ Peter Singer, *One World: The Ethics of Globalization*, Yale, 2002, pp. 106-149.

⁴ John Rawls, *A Theory of Justice*, Harvard, 1971, pp. 437-8.

⁵ Ibid, pp. 67-8.

⁶ John Rawls, *The Law of Peoples*, Harvard, 1999, p. 40.

⁷ McKinsey Global Institute, "Offshoring: Is it a Win-Win Game?" McKinsey & Co., San Francisco, 2003.

⁸ Peter Singer, Ibid, p. 157, and "Famine, Affluence and Morality," *Philosophy and Public Affairs*, I:2, 1972, pp. 231-32.

⁹ Hospitals and health-maintenance organizations are already doing so, according to Jared Bernstein, Senior Economist at the Economic Policy Institute. See Steven Greenhouse, "Retraining for What?: If You're a Waiter, the Future is Rosy," *New York Times*, Week in Review, March 7, 2004.

¹⁰ Steven Greenhouse, "IBM Explores Shift of White-Collar Jobs Over Seas," *New York Times*, July 2, 2003.

¹¹ www.forrester.com

¹² MGI and Kletzer and Litan, "A Prescription to Relieve Worker Anxiety," Policy Brief 01-2. IIE, February 2001.

¹³ Steven Greenhouse, Op.cit.

¹⁴ Op. 166.

¹⁵ Pp. 163-4

¹⁶ Rawls, Ibid, p. 117.

¹⁷ It could be argued that countries such as India or China, which have been subject to repressive rule, did not in fact "choose" not to industrialize and are thus not responsible for their lesser prosperity. Although this may well be, Rawls does not consider this plight as a burden sufficient to constitute an obligation to assist by citizens of other more prosperous countries. Rawls does however claim that "well-ordered peoples have a duty to assist burdened societies" that "lack the political and cultural traditions, the human capital and know-how, and, often, the material and technical resources needed to be well-ordered" (Ibid, p. 106). Thus, in extreme cases of suffering such as genocide or mass-starvation, there is indeed a n obligation to assist. But with respect to countries, such as India or China, that clearly possess the political and cultural traditions and the human, material and technical resources needed to be well-ordered, the peoples of more prosperous countries have no duty to assist. Indeed, if placed in the original position, it would seem inappropriate for anyone to will to be taxed or "outsourced" in favor of the citizens of an already well-ordered society not undergoing extreme cases of suffering beyond that country's own capacity to assist.

¹⁸ Rawls, Ibid, p. 40.

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Leader-Member Exchange, Transformational Leadership, and Value System

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Abstract

This study looked at the relationship between leader-member exchange (LMX), transformational leadership, and terminal and instrumental value system congruence between leader and follower, and their relative impact on four outcomes, using a sample of 100 pairs of managers and subordinates from a non-profit organization in the United States. The four outcomes studied are perceived effectiveness of leader and work unit, follower satisfaction with leader, follower's motivation to put in extra effort, and follower's intention to quit the organization. Results of correlation analyses indicate that LMX is positively related to transformational leadership, which in turn is positively related to terminal value system congruence. Results of regression analyses using the forward option show that transformational leadership is a stronger predictor of effectiveness, satisfaction, and extra effort than LMX and terminal value system congruence. LMX explains significant additional variance in satisfaction and extra effort than what is already explained by transformational leadership. LMX is a stronger predictor of follower's intention to quit than transformational leadership and terminal value system congruence. LMX also mediates the relationship between transformational leadership and intention to quit. Instrumental value system congruence between leader and follower is not significantly related to any of the variables.

Introduction

The constant change that has become a part of life for many organizations highlights the increasing importance of transformational leadership. Superior performance is possible only by transforming followers' values, attitudes, and motives from a lower to a higher plane of arousal and maturity (Bass, 1985). Transformational leadership is positively related to the amount of effort followers are willing to exert, satisfaction with the leader, ratings of job performance, and perceived effectiveness (Bass, 1998). Gerstner and Day (1997) argued that transformational leadership seems conceptually similar to the process of developing a unique exchange relationship that is central to Leader-Member Exchange (LMX). LMX has been found to be positively related to transformational leadership (Deluga, 1992). The relationship of leader-follower value system congruence with LMX and transformational leadership has however not been adequately explored. Burns (1978) considered transformational leadership to be a relationship wherein leaders and followers raise one another to higher levels of motivation. Their purposes, which might have started out as separate but related, become fused, leading to greater leader-follower congruence in value hierarchies. Thus, value system congruence between leader and follower could be among the most important characteristics of transformational leadership. This paper is an attempt to look at how LMX and transformational leadership are related to value system congruence, and analyze the relative impact of all the three on four outcomes—perceived effectiveness of leader and work unit, follower satisfaction with leader, follower's motivation to put in extra effort, and follower's intention to quit the organization.

Transformational Leadership

According to Burns (1978: 4), "the result of transforming leadership is a relationship of mutual stimulation and elevation that converts followers into leaders and may convert leaders into moral

agents" thus resulting in a transforming effect on both leaders and followers. Transformational leadership raises the level of human conduct of both leader and follower. Bass (1985) defined a transformational leader as one who motivates followers to do more than they originally expected to do. Transformational leaders broaden and change the interests of their followers, and generate awareness and acceptance of the purposes and mission of the group. They stir their followers to look beyond their self-interest for the good of the group. Palmer, Walls, Burgess, and Stough (2001) found that transformational leadership was positively related to the ability to monitor and manage emotions in oneself and others.

Transformational leadership consists of four factors—charismatic leadership or idealized influence, inspirational leadership or motivation, intellectual stimulation, and individualized consideration. Followers have complete faith in charismatic leaders, feel proud to be associated with them, and trust their capacity to overcome any obstacle. Inspirational leadership involves the arousal and heightening of motivation among followers. Intellectual stimulation arouses in followers the awareness of problems and how they may be solved, and stirs the imagination and generates thoughts and insights. Individualized consideration involves giving personal attention to followers who seem neglected, treating each follower individually, and helping each follower get what he or she wants (Bass, 1998). Boehnke, Bontis, DiStefano, and DiStefano (2003) even found support for the claim that the main dimensions of leadership for extraordinary performance are universal.

The transformational leadership model adds to the two fundamental leadership behaviors of initiation and consideration in explaining the variance in subordinates' satisfaction and ratings of leader effectiveness (Seltzer & Bass, 1990). Studies have looked at the separate impact of the various components of transformational leadership on performance and attitudes. Leader's vision and vision implementation through task cues affects performance and many attitudes of subordinates (Kirkpatrick & Locke,

1996). Strength of delivery of vision by the leader is an especially important determinant of perceptions of leader charisma and effectiveness (Awamleh & Gardner, 1999). Task feedback interacts with charismatic leadership in affecting performance, and this relationship is mediated by subordinate's self-efficacy (Shea & Howell, 1999). Cremer and Knippenberg (2002) showed that the interactive effect of leader charisma and procedural fairness on cooperation was mediated by their interactive effect on the sense of group belongingness. Shamir, Zakay, Breinin and Popper (1998) found that a leader's emphasis on collective identity was related to subordinate's level of identification with the leader. Kark, Shamir, and Chen (2003) found that identification with leader mediated the relationship between transformational leadership and follower's dependence, and identification with the work group mediated the relationship between transformational leadership and follower's empowerment.

Leader-Member Exchange (LMX)

The LMX theory occupies a unique position among leadership theories because of its focus on the dyadic relationship between leader and follower. LMX theory was originally referred to as Vertical Dyad Linkage (VDL) theory (Dansereau, Graen & Haga, 1975). According to VDL approach, leaders and followers develop dyadic relationships and leaders treat individual followers differently, resulting in two groups of followers—an in-group and an out-group. The in-group consists of a small number of trusted followers with whom the leader usually establishes a special higher quality exchange relationship. The out-group includes the remaining followers with whom the relationship of the leader remains more formal. These varying social exchange relationships are relatively enduring; they develop due to the leader's limited time and energy, and inability to give equal attention to all followers (Gerstner & Day, 1997).

Quality of leader-member exchange has been found to be positively related to follower's satisfaction, organizational commitment, role clarity, performance ratings given by leaders, and objective performance, and negatively related to role conflict and turnover intentions (Bauer & Green, 1996; Deluga, 1998; Gerstner & Day, 1997; Schriesheim, Castro, & Cogliser, 1999). Overall, results of studies suggest that having a high-quality relationship with one's leader can affect the entire work experience in a positive manner, including performance and affective outcomes (Gerstner & Day, 1997). Cogliser and Schriesheim (2000) found that work group cohesiveness, organizational climate, and leader power were related to LMX. The development of relationships in a leader-follower dyad can also be looked at in terms of a life-cycle model with three possible stages (Graen & Uhl-Bien, 1991). The relationship begins with an initial testing phase and remains at the out-group level if it does not proceed to the next stage. If the relationship proceeds to the second stage, mutual trust, loyalty, and respect are developed. Some relationships proceed to a third stage wherein self-interest gives way to mutual commitment to the mission. According to Graen and Uhl-Bien (1991), this final stage corresponds to transformational leadership.

LMX is conceptually described as an exchange process, making it appear to be a transactional leadership model, but it is not usually measured this way. Members of the in-group are not told what is expected in return for the rewards they are given as part of a high-quality exchange. Since leaders do not make explicit demands on followers in the form of harder work for these rewards, the relationship might be characterized as transforma-

tional. To the extent that LMX measures tap mutual respect, trust, and the overall quality of the working relationship, LMX is oriented toward transformational leadership. There is emerging support for the claim that LMX may be transformational, at least at certain times and under certain conditions (Gerstner & Day, 1997; Schriesheim, Castro, & Cogliser, 1999). Krishnan (2004) found that LMX and transformational leadership were positively related to each other. Dasborough and Ashkanasy (2002) argued that if prior interactions within the leader-member relationship have resulted in the members liking the leader, then members are more likely to consider the leader as truly transformational. Therefore, I hypothesized:

Hypothesis 1. LMX would be positively related to transformational leadership.

Leadership is a relationship between leaders and followers, and building this relationship requires an appreciation for the personal values of those who would be willing to give their energy and talents to accomplish shared objectives. Values form the very core of personality, and they influence the choices people make, the appeals they respond to, and the way they invest their time and energy (Posner & Schmidt, 1992). Values assume even more importance in the case of transformational leaders, since transformational leadership results in changing the needs and values of both leaders and followers. Burns (1978) held that transformational leadership is based on the role of conscious purpose drawn from values. Transformational leadership involves the uncovering of contradictions among values and between values and practice, and the realigning of values in followers.

Value System Congruence

Rokeach (1973:5) defined a value as "an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence." A belief concerning a desirable mode of conduct is an instrumental value and a belief concerning a desirable end-state of existence is a terminal value. Values may be thought of as internalized normative beliefs that can guide behavior. If a person values freedom as an end-state of existence, it means that he or she believes that freedom is preferable to slavery. Values can be conceptualized in two distinct ways—ipsative in which values are rank-ordered, and non-ipsative in which various values are measured independent of each other. A set of rank-ordered values is called a value system. Only the ipsative (rank-ordering) measurement model can capture the unique value configuration of an individual. That a person values happiness does not say much that is unique about that person, for most human beings value happiness. What matters most is how much a person values happiness in comparison with the other things that he or she values. If one knows that a person values happiness more than self-respect, one can have a more accurate picture of that person.

Value systems are enduring and it is important to understand value systems because they make a difference in terms of how people feel about themselves and their work. Several studies have demonstrated empirically how value systems affect personal and organizational effectiveness (Meglino & Ravlin, 1998). Value systems have been found to predict various outcomes including shopping selections (Homer & Kahle, 1988) and weight losses (Schwartz & Inbar-Saban, 1988). Values influence job choice decisions, job satisfaction, and commitment (Judge & Bretz, 1992). Blickle (2000) found that work values

predicted the frequency of use of influence strategies measured one year later.

Value system congruence between leader and follower could be defined as the extent of agreement between the leader's value system and the follower's value system. Weiss (1978) found that people aligned their values with the values of their leader if they perceived their leader to be competent and successful. Transformational leadership is likely to enhance the value system congruence between leader and follower. Congruence in values between leader and follower forms the strategic and moral foundation of authentic transformational leadership (Bass & Steidlmeier, 1999). An important difference between LMX and transformational leadership is the fusion of goals of leader and follower. Burns (1978) considered the fusion of goals between leader and follower to be an essential component of transformational leadership. LMX on the other hand, even when it is a high quality exchange relationship or has reached the final stage of mature relationship, does not address the question of changing the goals or value systems of followers. A high quality relationship is not necessarily an engaging relationship that would result in a transforming effect on both leader and follower. High quality exchange relationship simply presupposes a clear mutual understanding of each other's value systems and goals, and does not imply enhancing similarity in value systems.

Krishnan (2004) found that transformational leadership mediated the relationship between LMX and value system congruence. He used a list of ten values and did not distinguish between terminal and instrumental values. The vision that a transformational leader has serves as a unifying force that facilitates the convergence of leader's and follower's thoughts, beliefs and values (Kirkpatrick & Locke, 1996; Shamir et al., 1998). Jung and Avolio (2000) found that transformational leadership was positively related to value congruence between leader and follower. They measured value congruence as the extent to which followers agreed with leaders' values, and they did not distinguish between terminal and instrumental values. However, transformational leadership focuses on the joint purposes of leader and subordinate, and often results in transforming those purposes. Only the terminal values pertain to end-states of existence, and so the leadership that focuses on purposes will be related only to the terminal values. Hence, I hypothesized:

Hypothesis 2. Transformational leadership would be positively related to terminal value system congruence between leader and follower.

Follower Outcomes

Followers have a strong identification with leaders who are transformational, and so they would be willing to put in extra effort for the sake of such leaders. Several studies have documented a high positive correlation between transformational leadership and perceived effectiveness of leader and work unit and extra effort from follower. Impact of transformational leadership on follower effort and performance would be enhanced if followers hold personal values that are compatible with their leaders' (Klein & House, 1995). Leader's vision is especially powerful when it is congruent with follower's personal values (Shamir, 1995). Jung and Avolio (2000) found that transformational leadership, besides directly enhancing follower performance, also had an indirect effect on performance through value congruence between leader and follower.

Posner (1992) found that perceived value congruence was directly related to positive work attitudes. Value congruence in-

dicates a harmonious relationship between leader and subordinate; it should therefore result in greater satisfaction over time and a stronger desire to continue the relationship. Value congruence between employees and their supervisors is positively related to employee satisfaction and commitment (Meglino, Ravlin & Adkins, 1989). Jung and Avolio (2000) found that value congruence between leader and follower was positively related to follower satisfaction. Erdogan, Kraimer, and Liden (2002) demonstrated the complementary nature of LMX and person-organization fit in explaining job and career satisfaction.

The distinguishing feature of transformational leaders is that they are held in high regard and respected by their followers. Dvir, Eden, Avolio, and Shamir (2002) found that transformational leadership enhanced direct followers' development and indirect followers' performance. The shared perspective of the transformational leader's idealized vision and its potential for satisfying followers' needs make the leader likable. The personalized relationship between transformational leader and followers creates an environment in which the followers would feel happy to work with the leader. The transformational leader is an ideal or a role model for the follower, and hence the follower is likely to be influenced the most by such a leader. Therefore:

Hypothesis 3. Transformational leadership would be a stronger predictor of perceived effectiveness of leader and work unit, follower satisfaction with leader, and follower's motivation to put in extra effort, than LMX or value system congruence.

Shalley, Gilson, and Blum (2000) found that a work environment that complements job-required creativity had a negative effect on intentions to quit. Relationship with leader could be a part of such work environment. Scott, Bishop, and Chen (2003) demonstrated support for a model in which job satisfaction mediated the relationships between elements of a participative work environment and employee willingness to cooperate with co-workers and intention to quit. The relationships individuals had with their work groups were part of the work environment. Vecchio (1982) found that LMX was negatively related to propensity to quit. The quality of relationship between leader and follower would be the most important factor in making the follower continue to remain in that relationship. Transformational leadership will have a role to play in follower's intention to quit the job only after the follower considers the quality of relationship to be high. Thus:

Hypothesis 4. LMX would be a stronger predictor of follower's intention to quit the organization, than transformational leadership or value system congruence.

Method

I collected data for this study from a large, non-profit, national, human service organization in the United States. Blood services (collecting and distributing blood and blood products to hospitals) comprised a major portion of the organization's domain of activity. Disaster relief, health services, and armed forces services were the most important areas of operation after blood services. The organization had total staff strength of 28,000, and operated on a \$1.5 million annual budget.

Sample Characteristics

Those surveyed belonged to one of the 46 regional blood centers, spanning two northeastern states. Some of the respondents were handed over the surveys in person, generally at

the beginning of routine departmental meetings, by an administrative official of the organization, and were requested to answer the surveys and return them immediately. Other respondents were sent the surveys through inter-departmental mail and completed surveys were returned through the same medium to the administrative official. All responses were anonymous, and this was made clear to every respondent.

The sample of 100 leaders was drawn from nurse managers. The managers were randomly chosen and were requested to fill in the Value Survey (Rokeach, 1973) to measure their value systems. A majority of managers surveyed had been with the organization for at least 7 years. The median age of the managers surveyed was 42 years. Of the 96 managers who mentioned their gender, 71 were female and 25 were male. A subordinate of each of the managers surveyed was then randomly chosen to answer the Value Survey (Rokeach, 1973) and the leadership questionnaire. The questionnaires handed over to subordinates were coded to ensure pairing of each subordinate's response with his or her manager later. A manager had an average of 10 subordinates from whom one subordinate was randomly chosen. Of the 99 subordinates who mentioned their gender, 73 were female and 26 were male. A majority of subordinates surveyed were at least 30 years old, and had been with the organization for at least 4 years. 78% of the respondents reported that they had been working with the manager they were rating, for not less than 1 year.

Measures

Rokeach's (1973) Value Survey was used for measuring the value systems of leaders and subordinates. Rokeach's Survey is the most commonly used instrument that is capable of accommodating all possible social values. The Value Survey has been found to be both reliable and valid (Rokeach, 1973; Schwartz & Bilsky, 1990). The Survey uses an ipsative (rank order) design and has two lists of values arranged alphabetically—the first list consisting of 18 terminal values and the second list consisting of 18 instrumental values. Each value is presented along with a brief definition in parenthesis and respondents are asked to arrange the values in each set in order of importance to and as guiding principles in their life. The value systems were thus obtained for each leader, and for one subordinate of each leader as consisting of two components—one terminal value system and one instrumental value system.

Value system congruence. Similarity between two profiles can be calculated by treating the two sets of observations as two vectors. The index of similarity would then be given by the cosine of the angle between the two vectors, which is the same as the Pearson product-moment correlation between the vectors. The correlation between a subordinate's rank order and his or her leader's rank order was taken as the index of leader-follower value system congruence for that leader-follower pair. For each leader-follower pair, I obtained two scores for the index of congruence—an index of terminal congruence and an index of instrumental congruence. The relationships of terminal congruence and instrumental congruence with other variables were studied separately.

Transformational leadership. Bass (1985) developed the Multi-factor Leadership Questionnaire (MLQ) to measure the factors in transactional and transformational leadership. Several studies (Bycio, Hackett & Allen, 1995; Howell & Avolio, 1993) have revealed high validity for the MLQ. The relationship of high transformational leadership scores on MLQ with

effective leadership was found to be significant across many settings (Bass, 1998). I used the MLQ Form 5x of Bass and Avolio (1991) to measure transformational leadership. The Questionnaire had 37 items to measure the four factors of transformational leadership—8 items for charismatic leadership, 10 items each for inspirational leadership and intellectual stimulation, and 9 items for individualized consideration. Subordinates were requested to answer the MLQ by rating how frequently their current immediate supervisors have displayed the behaviors described, using a five-point scale (0=Not at all; 1=Once in a while; 2=Sometimes; 3=Fairly often; 4=Frequently if not always). A separate score for each of the four factors of transformational leadership was obtained. The Cronbach's Alpha for items within each factor group was at least 0.9. The mean of the items in each factor group was taken as the measure of that factor. Correlations between the four factors were not less than 0.85. The mean of the four factors was taken as the measure of transformational leadership.

Leader-member exchange. I used the 7-item scale developed by Graen, Novak, and Sommerkamp (1982) for measuring LMX. This scale appears to provide the soundest psychometric properties of all available LMX measures (Gerstner & Day, 1997). I used a 4-point Likert scale for my study.

Perceived effectiveness. Bass (1985) used a four-item scale for measuring subordinates' assessment of their leader and work unit effectiveness. A slightly modified version of these four items was used in this study. The four items were: (a) How would you classify the overall work effectiveness of your unit? (b) Compared to all other units you have ever known, how do you rate your unit's effectiveness? (c) How effective is your supervisor in meeting the job-related needs of subordinates? (d) How effective is your supervisor in meeting the requirements of the organization? Subordinates gave their responses to each of the four items on a five-point scale (0=Not effective; 1=Only slightly effective; 2=Effective; 3=Very effective; 4=Extremely effective). The mean score on the four items was taken as the measure of perceived effectiveness.

Satisfaction of subordinate. Subordinate's satisfaction with leader was measured by having subordinates respond to the two items (Bass, 1985): (a) In all, how satisfied are you with your supervisor? (b) In all, how satisfied are you with the methods of leadership used by your supervisor for getting your group's job done? The subordinates' responses were recorded on a five-point scale (0=Very dissatisfied; 1=Somewhat dissatisfied; 2=Neither satisfied nor dissatisfied; 3=Fairly satisfied; 4=Very satisfied). The mean score on the two items was taken as the measure of satisfaction.

Extra effort. Extra effort from subordinates as a result of leadership behaviors was measured using the three items: (a) He/she motivates me to do more than I thought I could do; (b) He/she heightens my motivation to succeed; (c) He/she gets me to do more than I expected I could do (Bass, 1985). Subordinates were requested to answer these items by rating how frequently their current immediate supervisors have displayed the behaviors described, using a five-point scale (0=Not at all; 1=Once in a while; 2=Sometimes; 3=Fairly often; 4=Frequently if not always). The mean score on the three items was taken as the measure of extra effort.

Intention to quit. Subordinate's intention to quit the organization was measured using the three items: (a) I think often about quitting my job; (b) I intend to search for a new job soon; (c) I intend to quit my job soon. The subordinates' responses were recorded on a five-point scale (0=Strongly disagree; 1=Slightly disagree; 2=Neither agree nor disagree; 3=Slightly

Table 1
Means, Standard Deviations, Cronbach Alphas, and Correlations between Variables *

Variables	M	SD	1	2	3	4	5	6	7
1. TL	2.58	0.90	(.98)						
2. Terminal VSC	0.19	0.29	*.25						
3. LMX	1.85	0.70	***.76	.08					
4. Effectiveness	2.60	0.83	***.77	†.20	.64	(.86)			
5. Satisfaction	2.74	1.31	***.86	*.25	***.77	***.78	(.92)		
6. Extra Effort	2.24	1.14	***.88	†.20	***.72	***.74	***.81	(.91)	
7. Intention to Quit	1.56	1.22	***-.46	-.12	***-.50	***-.48	***-.51	***-.45	(.85)

* N ranges from 92 to 100. Cronbach Alphas are in parentheses along the diagonal.

TL = Transformational leadership. VSC = Value system congruence.

† = $p < .10$. * = $p < .05$. ** = $p < .01$. *** = $p < .001$.

agree; 4=Strongly agree). The mean score on the three items was taken as the measure of intention to quit.

Results

Table 1 presents the means, standard deviations, reliabilities (Cronbach alphas), and correlations between all variables in the study. LMX was significantly positively related to transformational leadership, thereby supporting Hypothesis 1. Transformational leadership was significantly positively related to leader-follower terminal value system congruence. Thus, the results supported Hypothesis 2. Neither transformational leadership nor any of the other variables was significantly related to leader-follower instrumental value system congruence. The relationships between LMX, transformational leadership, and terminal congruence followed a two-part sequence. LMX was related to transformational leadership and transformational leadership was related to congruence, but LMX was not related to congruence. I also did a regression analysis with terminal congruence as dependent variable and both LMX and transformational leadership as independent variables; the model was significant at 0.01 level (R -Square = 0.10), the parameter estimate of transformational leadership was 0.16 ($t = 3.09$, $p < 0.01$), and the parameter estimate of LMX was -0.13 ($t = -1.95$, $p < 0.10$).

Hypotheses 3 and 4 were tested using regression analysis with the forward-selection technique (Judge, Griffiths, Hill, Lutkepohl, & Lee, 1985). The forward-selection technique begins with no variables in the model. For each independent variable, it calculates F statistics that reflect the variable's contribution to the model if it is included. The variable that

would produce the largest F statistic is added to the model. The evaluation process is repeated with the variables remaining outside the model. Once a variable is entered into the model, it stays. Thus, variables are added one by one to the model until no remaining variable produces a significant F statistic. Each of the four outcomes (effectiveness, satisfaction, extra effort, and intention to quit) was separately modeled against LMX, transformational leadership, and terminal

value system congruence using the forward option. The results are given in Table 2.

Transformational leadership was a stronger predictor of effectiveness, satisfaction, and extra effort, than LMX and value system congruence, thus supporting Hypothesis 3. LMX, however, entered step 2 of the model in the case of extra effort, and explained significantly more variance in extra effort than what was already explained by transformational leadership. In the case of satisfaction also, LMX entered step 2 of the model and added to transformational leadership in explaining significant additional variance in satisfaction. Terminal congruence entered step 3 of the model but did not explain significant additional variance in satisfaction, though the model as a whole remained significant. A separate partial correlation analysis also revealed that the relationship between terminal value system congruence and satisfaction continued to remain significant after controlling for LMX, but ceased to be significant after controlling for transformational leadership or after controlling for both transformational leadership and LMX.

Findings supported Hypothesis 4. Transformational leadership and LMX were both significantly negatively related to follower's intention to quit the job, but LMX was a stronger predictor of intention to quit than transformational leadership and terminal congruence. Transformational leadership did not add

Table 2
Linear Regression Using the Forward Option*

Dependent variable	Step variable	Independent estimate entered	Parameter	F	Model R ²	Model F
Effectiveness	1	TL	0.73	***159.34	.63	***159.34
	2	LMX	0.31	*6.25	.79	***174.77
Extra effort	1	TL	1.08	***324.74	.78	***324.74
	2	TL	0.90	***88.85	.79	***174.77
	3	LMX	0.31	*6.25	.79	***174.77
Satisfaction	1	TL	1.26	***262.39	.74	***262.39
	2	TL	0.95	***61.99	.77	***151.08
	3	LMX	0.51	**11.06	.77	***151.08
Intention to quit	1	TL	0.89	***50.52	.77	***102.27
	2	LMX	0.56	***12.57	.77	***102.27
	3	Terminal VSC	0.33	1.84	.77	***102.27
Intention to quit	1	LMX	-0.90	***31.89	.26	***31.89
	2	LMX	-0.64	*6.19	.27	***16.85
	3	TL	-0.25	1.60	.27	***16.85

* Parameter estimates are reported only if a variable met the 0.50 significance level for entry into the model.

TL = Transformational leadership. VSC = Value system congruence.

* = $p < 0.05$. ** = $p < 0.01$. *** = $p < 0.001$.

significant amount of additional variance in intention to quit when it entered the model in step 2, though the overall model continued to remain significant. A separate partial correlation analysis also showed that the relationship between transformational leadership and intention to quit ceased to be significant after controlling for LMX. Thus, LMX mediated the relationship between transformational leadership and intention to quit. Terminal congruence was not significantly related to intention to quit. Leader-follower instrumental value system congruence was not significantly related to any of the variables.

Discussion

Transformational leadership is positively related to leader-follower terminal value system congruence, but there is no similar relationship in the case of instrumental value system congruence. Emulation of leader's value system by followers was a component of House's (1977) model of charismatic leadership. The findings of this study suggest that followers may emulate only the terminal value systems of transformational leaders, but not their instrumental value systems. Bass (1985) argued that transformational leaders elevated the value of designated outcomes in the eyes of the followers resulting in what Burns (1978) termed the fusion of leader's and followers' purposes. One of the managerial implications of this study is that one should pay attention to developing transformational leadership capabilities in managers if a change in terminal values of subordinates is contemplated. Subordinates are likely to fall in line with the terminal value systems of their leaders if their leaders are more transformational.

Leader-Member Exchange

A significant finding of this study is that terminal congruence is positively related to transformational leadership after controlling for LMX. Many authors have highlighted the similarities between the constructs of LMX and transformational leadership (Gerstner & Day, 1997). Congruence of terminal value systems between follower and leader could be the uniqueness of the construct of transformational leadership. This study supports the claim of Burns (1978) that fusion of goals between leader and follower is the ultimate yardstick of transformational leadership.

Follower Outcome Variables

Perceived effectiveness. The positive and significant relationship between LMX and perceived effectiveness ceases to exist after controlling for transformational leadership. Thus, transformational leadership mediates the relationship between LMX and perceived effectiveness. Scandura (1999) commented that discrepancies in empirical studies on LMX suggest that there might be mediator variables that account for some of the differences reported across studies. The correlations between LMX and perceived effectiveness of leader seen in earlier studies (Deluga, 1998) may not have been the result of a direct relationship between the two variables. This study highlights the mediating role of transformational leadership in the impact of LMX on follower outcomes.

Extra effort. Transformational leadership is the strongest predictor of extra effort, but LMX also explains significant ad-

ditional variance. Settoon, Bennett and Liden (1996) found that LMX was positively related to extra-role behaviors of subordinates. This study throws more light on the relative contributions of transformational leadership and LMX in predicting extra effort.

Satisfaction with leader. Terminal congruence, transformational leadership, and LMX are all significantly positively related to follower's satisfaction with leader. Graen et al. (1982) found that LMX was positively related to satisfaction. This study shows that the positive relationship between LMX and satisfaction with leader continues to remain significant even after controlling for transformational leadership. Meglino et al. (1989) had found a positive relationship between leader-follower value congruence and satisfaction of follower. The findings of this study however explain more by looking at terminal and instrumental value system congruence separately. It is only the terminal values that matter while considering satisfaction of follower, and the instrumental values seem to be of no consequence. However, the positive relationship between terminal congruence and satisfaction remains significant after controlling for LMX but not after controlling for transformational leadership. This further highlights terminal congruence to be a uniquely identifying characteristic of transformational leadership. The fact that transformational leadership and LMX differentially affect the relationship between terminal congruence and satisfaction demonstrates the importance of terminal congruence in understanding the construct of transformational leadership.

Transformational leadership and outcome variables. The results indicate that transformational leadership is strongly and positively correlated with perceived effectiveness, satisfaction, and extra effort, and is strongly and negatively correlated with intention to quit. Other studies have also found similar relationships (Bycio et al., 1995). Such high correlations could have been because of both leadership behaviors and effects being assessed in the same questionnaire (Howell & Avolio, 1993). In this study however, value system congruence was measured independently of the leadership questionnaire. Transformational leadership is positively correlated to terminal value system congruence, which again is positively correlated to satisfaction. Thus, the findings of this study provide greater support to the validity of the relationship between transformational leadership and satisfaction. The findings also indicate that LMX mediates the relationship between transformational leadership and intention to quit. It is not transformational leadership that directly affects follower's intention to quit, but it is the quality of the relationship between follower and leader as captured by the LMX construct that is immediately related to intention to quit.

Limitations of Study

Participation in the study was voluntary and so there might have been some self-selection bias. Moreover, the use of correlation design does not answer the question of causality. Data was collected only from one organization, and the organization from which data was collected was a non-profit service organization known for its strong culture. It is possible that a cultural bias may have been introduced. In addition, a majority of the respondents were women. The generalizability and external validity of the results are therefore limited. The variables other than value system congruence—LMX, transformational leadership, and the four outcomes—were measured by surveying the subordinate. The same source being used for measuring all these

variables could have caused some measurement error.

Directions for Future Research

Future research might benefit from extending this study to include objective measures of effectiveness. More studies are also needed that look at both LMX and transformational leadership and not just one of them, since part of the effects attributed to transformational leadership could actually be on account of LMX. The surprisingly distinct results obtained for terminal and instrumental values demonstrate the importance of studying the two types of values separately. Past studies have looked at the relationship between values and outcome variables like performance, turnover, and absenteeism, but it might be worth studying the relationships of outcome variables with terminal and instrumental values separately. Studying the values of managers and their subordinates across many industries and over time could be of help in generalizing the results of this study. Avolio and Bass (1999) found that combining charisma and inspiration into one factor was a better way of representing

the underlying dimensions of transformational leadership. Future research could use the resulting three-factor structure for studying transformational leadership.

Conclusion

The multiple changes occurring in society and the business world have created a greater need for transformational leadership. This study addresses the relationship between transformational leadership, LMX, and value system congruence of follower with leader, and the impact of all the three on four follower outcomes. LMX is positively related to transformational leadership, and transformational leadership is positively related to leader-follower terminal value system congruence. The study also highlights terminal value system congruence to be a useful variable that distinguishes transformational leadership from closely related constructs like LMX. As further research provides greater support, developing transformational leadership in managers could become an integral part of attempts to change the terminal value systems of subordinates.

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Organizational Conflicts Perceived by Marketing Executives

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Abstract

This article discusses the conflict phenomenon and examines some strategies to overcome it. Concepts are discussed and employed for the development of an exploratory field survey carried out with Brazilian marketing executives. Results show that conflicts are more felt in the marketing area itself and in near and related areas. Communication is the main source of conflict, followed by different expectations and organizational structure.

Keywords

Conflict, organization, executives, communication, marketing

Introduction

The potential for conflict exists in every organization. Despite that, little thought is given to organizational behavior analysis, especially in marketing. This complex phenomenon brings implications to social life and its understanding offers insights into a more effective organizational management. The organization is a rich arena for the study of conflicts because there are highly dependent situations that involve authority, hierarchical power and groups (Tjosvold, 1998).

Conflicts can be discussed in a number of different aspects. Some previous works refer to the human aspect of conflict, stressing that conflict doesn't exist with lack of emotion (Bodtker and Jameson, 2001; Jones, 2000) and that men and women, as well as people in different hierarchical levels, deal with it in different ways (Brewer, Mitchell, and Weber, 2002). Jameson's (1999) article presents a broad evaluation model of conflict assessment and organizational conflict management. Lewicki, Weiss and Lewin (1992), in turn, provide an extensive review and synthesis of 44 main conflict models, negotiation and third party intervention. Oudenhoven, Mechelse and De Dreu's (1998) work compares the occurrence of conflicts in companies in Denmark, the Netherlands, Spain and Belgium in terms of avoidance, power distance, and masculinity-femininity. Tinsley and Brett's (2001) work, in turn, evaluates the cultural influence from the United States and Hong Kong in organizational conflicts. Rahim, Garrett and Buntzman (1992) investigate ethics in interpersonal management and Duke's (1995) concern is on how organizational conflicts affect technology commercialization from nonprofit laboratories. Paltridge (1971) examines organizational conflicts in college presenting cases situations and their resolutions.

More specifically on conflicts in the marketing area, Maltz and Kohli's (2000) work examines conflict in this area with other functions, such as: Finance, Production and Research and Development (R&D), analyzing mechanisms that managers can use to prevent it or reduce it. In the same line of thought Xie, Song

and Stringfellow (1998) and Song, Xie and Dyer (2000) analyze conflict management comparing Japan, Hong Kong, United States and Great Britain during new products launching, as well as the integration of marketing with Research and Development (R&D) and Production. Jung's (2003) research, in turn, analyzes the effects of the culture of an organization in conflict resolution in marketing. Apparently, what is more emphasized in marketing literature is conflicts between distribution channels as shown in the works of Mallen (1963), Assael (1968), Rosson and Ford (1980), Lederhaus (1984), Eliashberg and Michie (1984), Gaski (1984), Hunt, Ray and Wood (1985), Brown, Lusch and Smith (1984) and Dant and Schul (1992).

Studies concerning conflicts in marketing typically consider the reality of American and European organizations. Recent initiatives were made to better understand the management conflict in Asia, as the works of Tinsley and Brett (2001) and Imazai and Ohbuchi (2002). This paper contributes to understand how organizational conflict occurs in the marketing area of Brazilian companies, considering the relationships among this function and other areas, as analysed by Mallen (1963) and Maltz and Kohli (2000), as well as the reasons of conflicts, as approached by Eliashberg and Michie (1984) and Jung (2003). Thus the objective of this article is to understand organizational conflict in marketing and the reasons of its occurrence in Brazilian organizations, searching to answer the following questions: (i) which other areas marketing has more conflict with?, (ii) what are the reasons of conflicts in marketing?, (iii) what are the main problems that lead to conflicts in marketing area?, (iv) what is the relation among functional areas and size and type of company?

For this purpose, a bibliographical study complemented by a field study was made involving marketing executives. The marketing literature regarding conflicts in marketing refers to specific aspects of marketing activities and this study has the purpose to understand the marketing as functional area within the organization. Consequently, three general topics derived by the bibliographical study are

presented: (i) definition of organizational conflict and development, (ii) vertical and horizontal conflicts and (iii) reasons of conflicts.

Definition of Organizational Conflict and Development

In a conflict, the minimum of two parts, the so-called agents are in dispute about some issue. Agents can be individuals, groups, companies, state, political parties and others (Pawlak, 1998). Katz and Kahn (1978, p. 615) define conflict as some specific type of interaction, marked by obstruction struggle, constraining or prejudicial act and by resistance or retaliation against these efforts. It is common to understand organizational conflict as opposition to cooperation, as an open discussion between two or more groups in an organization, reflecting cases in which negative manifestations disrupt cooperation by trust destruction and close communication channels (Hatch, 1997). However, in manifestations of positive behavior, conflict can provide benefits for innovations and teamwork and can, as a consequence, foster future cooperative acts and build value for diversity. Conflict and cooperation are just opposite when conflict is defined as destructive. When constructive aspects are in focus, conflict and cooperation are complementary process (Robins, 1974).

At first, conflict was considered highly dysfunctional, the antithesis of cooperation, and was interpreted as a sign of an imperfect or incomplete social structure (Rico, 1964). However, Pondy's theories (1967, 1969) showed that although unpleasant, it is an inevitable part of an organization. For Pondy, conflict, although regarded as dysfunctional is a natural and inevitable condition and should be accepted. This view deviated interests in studies about conflicts to their sources and fundamental conditions. The view of conflict as something natural helps managers to understand it – not as result of poor management, but as an inevitable aspect of the organization. Pondy further proposed a positive attitude in relation to conflict. This suggestion led to the understanding that this phenomenon can foster innovation and adaptability. This view formed the third variant of the theorization of conflicts and challenged the precepts that organization should be cooperative systems arriving to the functional view of conflict. This perspective suggests that conflict is good for the organization because it provides higher quality decision-making due to differences in opinion. It must be pointed out that over time Pondy (1992) changed his view on organizational conflict. In 1967 he believed that organizations were cooperative, deliberate systems that occasionally experienced conflicts or cooperation breakdown. In 1992 he suggested that an organization was the opposite of a cooperative system: if conflict didn't take place, then the organization had no reason to exist. Long-lasting companies were those who had institutionalized conflicts and diversity in the organization's structure.

Tjosvold (1998) complements this statement arguing that conflict is not the opposite of cooperation but a mechanism that allows to perceive benefits of cooperative work. Furthermore, conflict is considered psychologically and socially healthy. It is psychologically healthy because it provides a breather for frustrations and enables a feeling of participation and even of joy. And it is sociable healthy because it encourages opposition to the status quo and provides conditions for social chances and democracy stemming from pluralism and respect to diversity. Functional perspective adverts that few conflicts lead to negative consequences, for example: groupthink, decision-making without support, apathy and stagnation. Therefore, according

to Butler (1973), conflict is ubiquitous, not necessarily dysfunctional and can be required to defy people to perform and stimulate progress.

According to Deutsch (1973), theories in cooperation and competition provide an approach for the understanding of the dynamics and the outcomes of conflict. Cooperative goals lead conflicts to increase benefits and reduce costs, being fundamental for positive conflicts. Cooperative goals lead to mutual exchange and to constructive controversy (open discussion of diverse views), strengthening the quality of negotiated decision, productivity and reaffirming the relationship between disputants which results in success and trust in future collaborations. Competitive goals, in turn, increase the possibility to avoid a direct discussion or, alternatively, a harsh and narrow-minded discussion, with the attempt to force the other in an aggressive way – dynamics that deteriorate decision-making, work accomplished and relationship, giving rise to frustration, aggression, hostility and retaliation. Robins (1983) stressed that if conflict exists it should be perceived by the parties involved. If a conflict exists, or not, is a perception issue.

Marketing environment is very competitive, so it is natural that conflicts emerge. Conflicts in marketing could be enriching as it stimulates the creativeness necessary to be successful in the market. The following topic analyzes vertical and horizontal conflicts that take place within organizations.

Vertical and Horizontal Conflicts

Organizational conflict involves interpersonal conflicts with colleagues or supervisors, or intergroup conflicts within different sections of an organization (Imazai and Ohbuchi, 2002). There are two essential types of conflict in organizations: vertical and horizontal. Vertical conflict occurs in groups of different hierarchical levels, such as supervisors and salesmen, whereas horizontal conflict occurs between individuals of the same level, such as managers in the same organization. In the vertical conflict, differences in status and power between groups are in general larger than in the horizontal conflict (Robins, 1983) because these aspects tend to equalize in equivalent hierarchical levels. When vertical conflict takes place between operational workers and administration, their sources refer to: (i) psychological distance: workers don't feel involved in the organization and feel that their needs are not met; (ii) power and status: workers feel powerless and alienated; (iii) differences in value and ideology: this difference represents underlying beliefs on objectives and goals of an organization and; (iv) scarce resources: disagreements regarding benefits, salary and work conditions.

In vertical conflict, apparently individuals in lower organizational level seek to avoid conflicts with higher hierarchical levels (Brewer, Mitchell, and Weber, 2002). Pondy (1966) observes that it is expected that the top management peers perceive more conflict internally between their groups than those of lower position. This happens because of the following reasons: (i) people in higher hierarchical level, rather than the lower ones, are engaged in non-routine activities and development of politics, where orientation for the actions are less clear and chances for disagreement, bigger and; (ii) people in higher hierarchical level, rather than the lower ones, are probably less flexible in their points of view. Hence conflict resolution is more difficult.

Considering the vertical conflict, Imazai and Ohbuchi's (2002) research examines the short-term and long-term effects of perceived fairness in organizational conflicts between employees and supervisors. The authors' conclusion is that for

employees fairness is important in the resolution of organizational conflicts. When employees realize that there was fairness in the conflict resolution, the bond between the group strengthens. The authors add that the perceived and distributive fairness significantly enhances job satisfaction, positive organizational commitment and satisfaction with outcome of conflicts. Once vertical and horizontal conflicts are analyzed, let's examine the main reasons that cause conflicts.

Reasons of Conflicts

Robins (1983) believes that people are aware of the factors that generate conflicts such as scarcity, obstruction and incompatible interests or goals. Resource scarcity, either monetary, job, prestige or power, encourages the obstruction of behavior and conflict arises. Conflict can also be broken out when one party avoids the goal achievement of the other one.

Reiterating these ideas, Jung (2003) declares that conflict is clearly associated with power and can emerge when goal achievement of an organization is avoided. However, according to Pondy (1966), in situations of routine behavior where procedures are well defined and environment is stable, it is probable that causes for conflicts are not highly correlated with goal and objective achievement. In these circumstances, conflict variables are probably more related to personality, autonomy reasons, functional interdependence and status.

Gordon (1987) cites some reasons that justify conflict escalation in organizations: (i) as departments grow, people lose contact with other departments, or yet, members of a department start to think differently from other areas; (ii) the increase of emphasis in the financial measures as a tool for motivation for managers and the establishment of different profit centers inside an integrated business system end up creating many conflicts; (iii) the increasing rise of emphasis in functional specialization, politics of promotion and recruiting reinforce the isolation of departments, generating conflicts; (iv) today there is more room for workers to show criticism among each other, while this freedom of speech can be beneficial for society as a whole, in organizational context can be transformed into conflicts and; (v) consumers demand lower prices, better quality in products and services, creating pressures so that departments work more effectively which can result in conflicts among departments.

Another reason pointed out in literature for the occurrence of conflicts is the asymmetric degree of interdependence, that affects the level of trust and commitment of the groups (Kumar, Scheer, and Steenkamp, 1995). Asymmetric interdependence occurs when parties have different levels of dependence among each other. That is, in one same group some individuals can depend on people that, in turn, show independence in relation to them. In total interdependence, on the other hand, individuals are totally dependent on one another. Kumar, Scheer and Steenkamp (1995) state that relationships with total interdependence have less conflict than the ones with asymmetric interdependence. For Jung (2003), conflict is smaller in highly dependent relationships because, in general, the dependent party conforms itself that it can not alter the situation and accept the leader's power.

The reason of conflicts can also lay in relationship conflict, that is the perception of animosities and personal incompatibility. According to Peterson and Behfar (2003), the negative impact of relationship conflict in the group performance occurs in three ways. First, it limits the ability to process information, because

the group members spend their time and energy focusing on one another, rather than in group problems. Second, because it limits the cognitive functioning of the group members by increasing the level of stress and anxiety. Third, because it encourages accusations and antagonisms regarding the behavior of the other group which can create a predisposition to hostility and conflict escalation.

Individuals that manage conflicts effectively in organizations are perceived as competent communicators and leaders whereas those individuals incapable of managing conflicts effectively may have problems not only in reaching organizational goals, but also in keeping positive and consistent relationships and solving problems. Individuals that have difficulty in dealing with conflicts also have greater probability to be dissatisfied with work (Gross and Guerrero, 2000).

Previous theoretical reviews outlined definition, vertical and horizontal conflicts in organizations and reasons of conflicts. To check how organizational conflict occurs in Brazilian organizations and in the marketing area a field survey was developed. The method and result analysis are presented as follows.

Field Survey Method

The sample was drawn from a list of Executive MBA students. The questionnaire was delivered to 182 marketing executives and 101 valid questionnaires were returned.

The exploratory research was based on Brazilian marketing executives holding jobs as supervisors or coordinators (19,8%), managers (61,4%) or higher levels – directors or company owners (18,8%). Executives' average age is 34 years, ranging from 25 to 48 years. Of all interviewees, 56% work in industry, 33,7% in services and 9,9% in other types of companies. As for company size, 4,0% are small, 32,7% medium and 63,4% large. The interviews were conducted during the first and second semester of 2003 and first semester of 2004. Contacts were either made in person or via e-mail. The collecting tool was a structured and non-disguised questionnaire with close-ended questions, designed from literature review and previous studies. The literature review leads to the following items to be investigated in the field research: (i) areas where marketing function has conflicts; (ii) reasons of conflicts, (iii) main problems of conflicts, (iv) frequency of conflict in the organizational areas.

The questionnaire was complemented with interviewees' personal data and company's general data that were related to other variables later on. For data treatment and analysis the SPSS software (version 11.0) was used with univariate, bivariate and multivariate techniques (factorial and multidimensional scales). The most interesting results are analyzed in this article.

Results

In the conducted research, when asked about conflicts that occur above, below and in the same hierarchical level that they work, executives state that in general they occur more in higher hierarchical level and less between subordinates, what is in accordance with Pondy's (1966) observation that it should be expected that high status peers to perceive more conflict with each other than low status peers with each other because: (i) high status persons, more than low status persons, are engaged in more non-routine, policy-making type activities where the guides to action are less clear and the chance for disagreement higher and (ii) high status persons, more than low status per-

Table 1
Reasons for conflicts

Reasons	Valid Answers	Average Scale of 1 to 7*	Standard Deviation
Communication problems	101	5,00	1,2649
Different expectations	100	4,63	1,1777
Problems with organizational structure	101	4,43	1,4515
Power and status	101	4,40	1,4972
Lack of agility	100	4,36	1,4738
Non-fulfillment of goals	101	4,17	1,3643
Lack of cooperation	100	4,00	1,4839
Lack of resources	100	3,94	1,5097
Disagreement regarding goals	100	3,93	1,5059
Uncertainties	100	3,87	1,5612
Different experiences	101	3,70	1,4936
Cultural differences	100	3,60	1,5763
Policy of bonus and rewards	100	3,27	1,6688
Environmental changes	100	3,13	1,4189
Lack of adaptation to work	100	2,92	1,2034
Salary comparison	100	2,69	1,4750

* Although the scale is ordinal, averages were used instead of medians in order to capture small differences between answers.

sons, are probably less flexible in their views.

Using a frequency scale of 7 points, 50% of the interviewed executives state that conflicts in their organizations are healthy or functional – frequently, very frequently or always. However, the other half of respondents consider them healthy only sometimes, rarely, very rarely and even never – a percentage that seems high and presumes a certain degree of dysfunctionality, and can be a cause for concern for some organizations.

Research shows that conflicts experienced by marketing executives are generally discussed between people involved (73,8 % of the answers indicate the scale option always or frequently, 26,2% sometimes and 7% never or rarely). Only 6,2% take conflicts to top management which can be reflecting a way of behavior derived from the organizational culture and even from the western culture. An example illustrated by Tinsley and Brett (2001, p. 361) describes that while a western marketing manager (from the USA) believes that conflict can be resolved by means of negotiated agreement between colleagues, the Chinese counterpart believes that the result should be what the boss decides. In this study, executives believe that conflicts can be resolved between disputants, following the same posture of western managers of Tinsley and Brett's (2001) investigation.

Regarding conflict frequency that the marketing executive has with other areas in the organization, it seems to occur with more intensity with Sales (38%), followed by Informatics, Finance and Production/Operations. In the interviewee's point of view, the most powerful area in the company

is Sales (38% mentioned it). Marketing itself (24%), Finance (14%) and Production/Operations (13%) were also mentioned as a powerful area. Sales is cited as the one with more conflict (22%), followed by Finance (18%), Production/Operations (17%), Marketing (16%) and Informatics (11%). Therefore, marketing executives feel a greater degree of conflict with Sales and also cites it as the area with the greatest power, in accordance with Jung (2003) that state that conflict is clearly associated with power. It is also noted that conflicts are more frequent in areas where contact with executives is more intense, that is, in the marketing area itself or where relationship is close, such as in Sales.

In order to understand the reasons for conflicts, interviewees were asked to indicate in each alternative his/her best answer, where the scale used ranged from 1 (never) to 7 (always). The highest average found refers to communication problems, which reiterates Maltz and Kohli's (2000) statement that language barriers are basic sources of perceived conflict. Other important reasons are different expectations, problems with organizational structure and power and status. It is worth mentioning that salary comparison, within the items listed, is the one that least generated conflicts. Table 1 shows results obtained.

The factorial analysis allowed a reduction of 16 variables (reasons for conflicts) in five factors represented in Table 2. Factor 1 refers to administrative problems in general (that are inclusively a great source of conflicts), factor 2 to lack of synchrony of activities, factor 3 to problems of goal achievement, factor 4 to adaptation to the environment and finally factor 5 to individual differences. Hence, the marketing manager that had to deal with conflicts could focus the efforts on problems of these five items rather than the 16 mentioned earlier. Apparently there wouldn't be major difficulties to solve administrative problems, once causes and actions taken are identified.

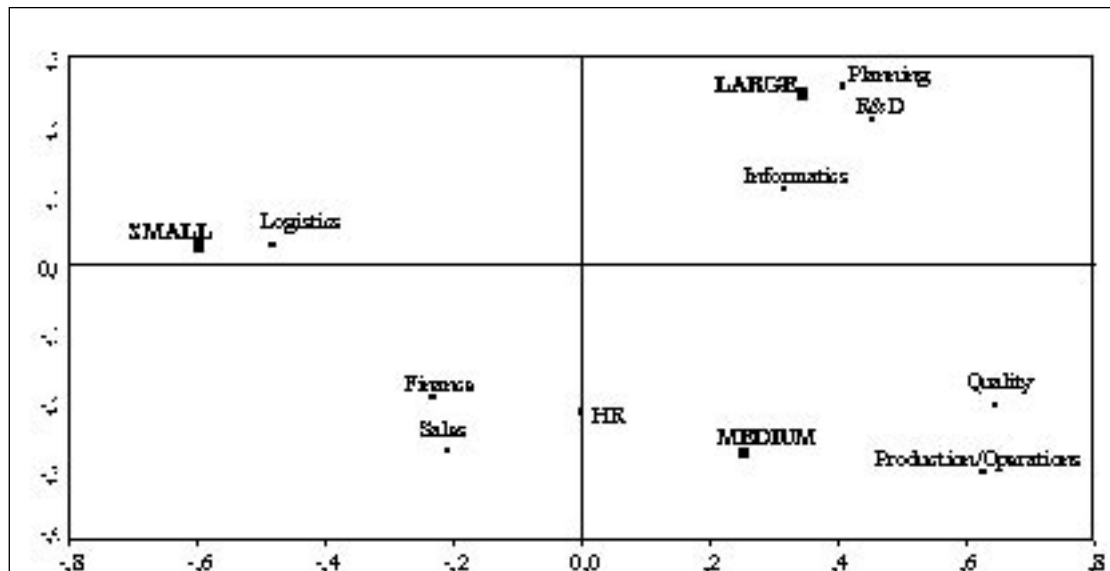
Conflicts were also analyzed according to size and type of company in spatial maps of averages (Figures 1 and 2). The spatial maps of averages present themselves as an alternative

Table 2
Rotated Component Matrix (Factorial Analysis)

	Reasons	Fact.1	Fact.2	Fact.3	Fact.4	Fact.5
Administrative Problems	Salary comparison	,826				
	Power and status	,674				
	Problems with organizational structure	,571				
	Communication problems	,563				
	Policy of bonus and rewards	,511	-,420			
Lack of Synchrony	Uncertainty	,464		,425		
	Lack of cooperation		,776			
	Lack of agility		,686			
Problems of goal achievement	Cultural differences		,373			
	Non-fulfillment of goals			,876		
	Disagreement regarding goals			,749		
Environmental Adaptation	Lack of resources			,487		
	Environmental changes				,817	
Individual Differences	Lack of adaptation to work				,734	
	Different expectations					,805
	Different experience					,725

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 7 iterations.

Figure 1
Spatial Map of Conflict Frequency in Functional Area by Company Size

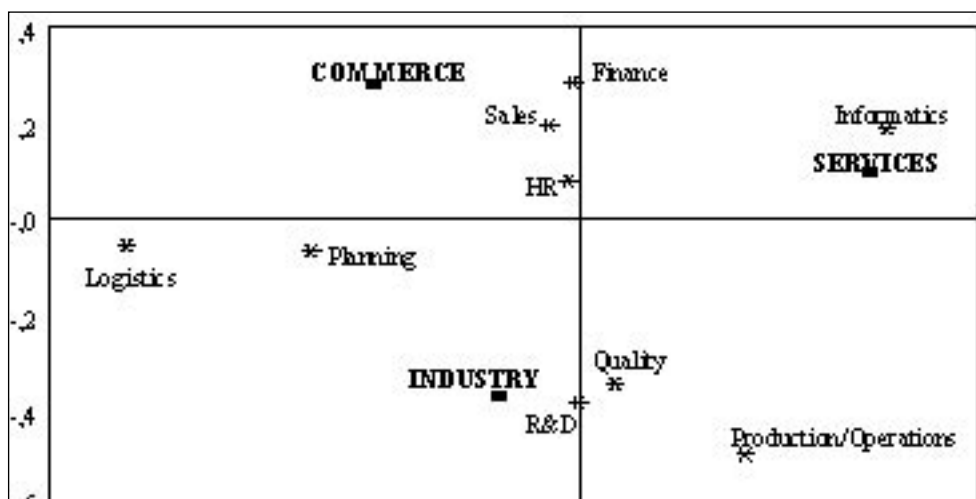


to average tables because it uses Euclidian distance to explain the differences between the averages. It associates two variables, as follows: (i) conflict frequency in the marketing area and (ii) size of company (small, medium and large) or type of company (commerce, industry and services). Multidimensional scales were used in the analysis of these variables. Since the Euclidian distance enables numerous options that influence the analysis, removal of line average (functional areas) was used, focusing the analysis on columns (size and type of company). Therefore, the general differences of lines didn't influence the solution. All lines were centralized to the same value, focusing the differences on analyzed groups (SPSS, 2001). Figure 1 suggests that in large companies conflicts are more associated with Planning, R&D and Informatics, while in small companies conflicts are more associated with Logistics. In medium-sized companies conflicts are more associated with Quality and Production/Operations.

Analyzing the type of company (Figure 2), it is noted that those classified as industry have conflicts related to Quality, R&D and Production/Operation areas, whereas in service companies conflicts are more associated with Informatics. The result found for the industry may reflect the complexity that involves the development of physical goods, where participation in R&D and Production/Operation areas are notorious.

When diagnosing these tendencies and relationships ac-

Figure 2
Spatial Map on Conflict Frequency in Functional Areas by Type of Company



ording to company type and size, managers can deal with conflict resolution more easily, directing their efforts towards areas where relationships are more delicate.

Final Considerations

Conflicts are part of human nature and it is extremely important to study it not only for theoretical purposes but also for organizational practice. Pawlak (1998) suggests that conflict analysis and its resolutions has an important role in private, public and political organizations, as well as in judicial and work disputes, in military

operations and many other situations.

Traditionally in marketing a great deal of attention is devoted to the consumer rather than to organizational issues (Jung 2003). However, this doesn't seem to be the more appropriate approach because the attention to one aspect doesn't eliminate or minimize the importance of the other one. The understanding of organizational environment and the relationship between the organization's members is vital for the effective functioning of the areas, including marketing. Therefore, marketing studies that already enhance conflicts in distribution channels should also investigate conflicts that take place within organizations. According to field survey results, special emphasis should be given to communication problems, different expectations and problems with organizational structure. Internal conflicts that break out within the marketing area and within related areas such as sales should also be given attention.

Conflict resolution depends on a lot of factors such as types of companies, personalities of individuals and culture of an organization. The influence of all these factors turns the management of this phenomenon still more complex. For this reason it is recommended to organizations to follow-up group interactions and activities so as to ensure a degree of functionality compatible to conflicts. Positive conflicts will only be possible if particularities of the organization are analyzed. This involves an awareness of the employees' profile, as well as of the relationship between departments and hierarchical levels and of the rules shared that guide behavior.

Despite being exploratory, this research reveals situations and conflict trends, providing reflections on how to deal with this issue. New ideas can emerge from this article and may address organizational conflict in a more specific and deep way. In future articles, conflicts should be explored, for instance, in terms of styles, consequences and occurrences in distinct functional areas and across different cultures and countries.

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An assessment of power abuse under ethics philosophies

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Abstract

In this paper, power abuse is assessed under different philosophies of ethics, namely, principles of relativism, duty, and morality. According to the theory of relativism, the moral rightness or wrongness of specific acts or decisions varies between societies. In some contexts, it is not unusual for people in management positions to abuse of the discretion conferred on them, to secure particular benefits. Sometimes, culture condones such behaviour. Traditions, values and norms help establish ethical principles that specific societies follow. Principles of duty and morality, on the other hand, state that decision-makers owe a duty to their stakeholders. Absolute rules are used to rate the ethicality of particular decisions or actions. For the purpose of this paper, a survey was conducted and hypothetical situations representing ethical problems of varying nature were presented to the participants. A multi-dimensional ethics scale was used to assess the influence of different dimensions on ethical decision-making. The scale, originally developed by Reidenbach and Robin (1988), consisted of cultural, duty and moral dimensions. The Reidenbach and Robin scale had so far been used in the United States only. By applying it to Mauritian context, the possibility of obtaining different results from those of earlier studies, was envisaged.

Keywords

Moral, culture, relativism, power abuse

NOTE: For technical reasons some tables have been removed from this article. The missing tables have been merged by ***. The Word document including all the tables are available on <http://ejbo.jyu.fi/>.

Introduction

What constitutes ethical or unethical behaviour tends to differ across cultures. Philosophers refer to different approaches to defining the ethicality of behaviour.

Utilitarian-based approaches judge behaviour by its effects on the overall welfare of everyone involved while under justice-based approaches, behaviour is assessed in terms of whether it imposes a fair distribution of benefits and burdens. It is worth noting, however, that some degree of subjectivity may be associated with the application of these approaches. An action judged ethical by someone making use of one approach may be categorised as unethical by the same individual using another approach or by another person utilising the same approach, hence the principle of relativism.

This paper focuses on power abuse in the context of business. The abuse of power is assessed under notions of duty, morality and relativism. To some cultures, it is not unusual to see people in management positions abuse of their discretion. A discussion of the relevant philosophies of ethics follows.

Literature

Value judgements on specific actions categorised as 'unethical' or 'improper', are only contextually relevant. Culture will either approve of or condemn particular modes of behaviour according to prevailing norms. After all, ethics is subject to perception. One cannot rationally claim that the ethical values of one particular culture are better than those of another. Values or beliefs prevailing in particular contexts attribute specific meanings to universal principles or moral rules. Whatever action or decision categorised as 'right' or 'ethical' in a country makes it acceptable as per the moral laws applicable there.

Donaldson and Werhane (1996)

claim that, under ethical relativism, moral rightness or wrongness of practices and actions varies from society to society. Davis et al. (1998) lay emphasis on two major concepts, relativism and idealism. They state that individual differences in personal ethical ideology vary with moral judgements, taking into account issue characteristics and socio-cultural background. Under "idealism", some people idealistically assume that "right" actions regularly lead to desirable consequences. These findings correspond to those of earlier studies (Forsyth, 1992; Singhapakdi, et al. 1995). On the contrary, others envisage the possibility that either undesirable or desirable consequences may follow such actions. Lewis and Unerman (1999) define relativism in terms of the extent to which people believe in and rely on universal moral principles when confronted with ethical issues. Cultural differences in terms of relativism suggest that cultures may cover a similar set of moral rules. However, these cultures may not necessarily apply the same moral principles in all cases (Rossouw, 1998; Trompenaars and Hampden-Turner, 1998).

Donaldson and Werhane (1996) define cultural relativism as a counterclaim that ethical practices differ across cultures. This theory states that universal principles are applied in accordance with prevailing norms and beliefs. Similarly, Thorne and Bartholomew-Saunders (2002) consider cultural factors as key determinants of moral views within a particular society at a particular point in time. Research carried out by Ferrell and Gresham (1985) and Hunt and Vitell (1986) give evidence that societies have cultures that differ in terms of physical setting, economic and technological development, education levels, amongst other criteria. The norms of corporate social responsibility are likely to differ across distinct contexts. In fact, research conducted by Adams and Maine (1998) and Lewis and Unerman, (1999) shows that broad ethical principles adopted by specific societies would depend on shared social and cultural backgrounds of the people. There is a consensus that social and cultural variables are likely to vary across societies and sometimes among

individuals, thereby influencing moral values and ethical thinking (Beauchamp and Bowie, 1983; Green, 1994; Lewis and Unerman, 1999; Thorne and Bartholomew-Saunders, 2002; Velasquez, 2001). Although people in a society may have been subject to similar broad cultural experiences, detailed moral codes may still differ in the same society. This justifies the view of Donaldson and Werhane (1996), that is, moral relativists go beyond the claim of cultural relativists, namely that perceptions as to what is right or wrong are guided solely by culture.

Ferrell and Fraedrich (1997) refer to two main teleological principles, that is, egoism and utilitarianism. Both are founded on consequences, that is, any act or decision is justified on the basis of its consequences. In their article, Reidenbach et al. (1991) emphasise that the theory of egoism states that people "should" behave as egoists rather than "they do" behave as such. This school of thought relies heavily on ideas of prudence, self promotion, best self interests, selfishness, and personal satisfaction. An act is considered as ethical as long as it promotes the individual's long-term interests. An individual may also help others, and even give gifts if he/she believes that those actions are in his/her best interests (Reidenbach, Robin, and Dawson, 1991).

Of the two teleological principles, utilitarianism is the most popular theory applied to business decisions. According to Buchholz and Rosenthal (1998), this principle assumes that, when faced with alternatives, the option that leads to the highest level of utility should be selected. "Utilitarianism is the teleological theory which states that individuals should act so as to produce the greatest possible ratio of good to evil for all of society" (Reidenbach, Robin, and Dawson, 1991, p. 91). More recent papers (Velasquez, 2001; Singhapakdi et al., 2001) consider utilitarian theory as a universal theory that looks at the consequences of specific actions for all stakeholders. Donaldson and Werhane (1996) give the example of the common universal principle relating to "public good", namely that "social institutions and individual behaviour should be ordered so that they lead to the greatest good for the greatest number" (p. 92).

Davis et al. (1998) define utilitarianism as a concept that rates an action in terms of its utility, that is, the greatest good for the greatest number. Cavanaugh (1990), however, claims that this norm is not necessarily the dominant criterion in 90 per cent of all business decisions (reported by Davis et al., 1998). Adams and Maine (1998) argue that it is more rational to apply the principle of utility to pertinent social rules in the broad sense than to individual cases. Most researchers, amongst whom, Buchholz and Rosenthal (1998), and Donaldson and Werhane (1996) distinguish between act utilitarianism and rule utilitarianism. Act utilitarianism is applicable to individual cases, that is, the 'act' that maximises utility for individuals must be adopted in all similar situations. This philosophy compares with what Ferrell and Fraedrich (1997) regard as "egoism". Egoism "defines right or acceptable behaviour in terms of the consequences for the individual" (Ferrell and Fraedrich, 1997, p. 54). On the other hand, rule utilitarianism refers to long-term best possible benefits, focusing on all stakeholders (Adams and Maine, 1998; Green, 1994; Velasquez, 2001). Rule utilitarianism states that some acts are wrong to conduct although they may have good consequences. The concept rule utilitarianism and act utilitarianism are alike with regard to relativism, though not relativistic in that they have one standard, one "rule of rules", one supreme norm, applicable to all times and situations (Hospers, 1999). Buchholz and Rosenthal (1998) emphasise the importance of "rules of thumb". These can be developed, the objective being to maximise utility in identical situations. This approach helps

save time rather than make people think through consequences likely to be encountered in different situations.

While utilitarians/consequentialists focus on the outcomes of decisions, other philosophers highlight the actual worth of specific decisions, arguing that consequences are secondary.

According to principles of deontology, individuals have a duty to satisfy the legitimate claims or needs of others. These claims are determined by applying logic to an ethical principle, bearing in mind that one owes many diverse duties to others (Reidenbach, Robin, and Dawson, 1991). Ferrell and Fraedrich (1997) refer to deontology as "non-consequentialism", "ethical formalism", or "ethics of respect-for-persons" (p. 57). The principle of deontology states that decisions should be judged on the circumstances in which they are made, rather than by their consequences. Deontology is the study of duty. In philosophy, it means specifically ethics based on duty regardless of consequences. Slim (1997) claims that the concept is regarded as often too binding and simplistic in handling individual cases, but influential in framing cases and setting non absolute rules in handling sets of cases and in defining frameworks. Slim compares strategic choices and tactical ones. Strategic choices are concerned with whether to engage at all in a situation whereas tactical ones focus on how to operate when involved in a particular situation. Slim adopts a partly deontological "mission-bounded" approach for some strategic choices and a (act-) consequentialist "compass" for some tactical choices.

While consequentialist ethics assesses courses of action in terms of their outcome, deontological ethics refers to rules stated in terms of other features of the courses of action, notably whether they represent fulfilment of an agreement or other duty or right, and/or involve the treatment of others with due respect. For the purpose of our survey, these principles were used to rate particular instances of unethical conduct on the part of middle/senior management, in business situations.

Research Setting

Like in many developing nations, certain types of unethical behaviour are commonly encountered amongst people of the Mauritian business community. This includes the aspect of power abuse on the part of business executives. Such acts lead to an infringement of stakeholders' rights. On-going debates on the call for ethical conduct, through training in ethics, raise an interesting point. In spite of the consensus to educate the average citizen to promote ethical conduct, acts of unacceptable conduct still prevail amongst the powerful, both in public and private sectors. The problem of rule application persists, and the question as to how to tackle unethical conduct at that level is left unanswered.

Methodology

For analysis purposes, the multi-dimensional ethics scale developed by Reidenbach and Robin (1988) was used. Reidenbach and Robin (1988) applied deontological, teleological (utilitarianism and egoism), relativistic principles and justice theory to develop a multi-dimensional ethics scale. Initially a thirty-item multi-dimensional ethics scale based on a content analysis of five theories of ethics, namely, justice, deontology, relativism, utilitarianism and egoism was developed (Kujala, 2001). The thirty-item scale was later reduced to an eight-item measurement instrument:

In the studies conducted in the United States, a data-reduction technique was used to further reduce the eight items to three dimensions, that is, a broad-based moral equity dimension, a contractualism dimension, and a relativism dimension (Kujala, 2001). The moral equity dimension comprises "fair", "just", "morally right" and "acceptable to family" while the relativistic dimension is composed of "traditionally acceptable" and "culturally acceptable" items. The third dimension is the contractualism one and it relates to "does not violate an unwritten contract" and "does not violate an unspoken promise" (Reidenbach, Robin, and Dawson, 1991). According to Reidenbach and Robin (1990), the multidimensional nature of the ethics scale can potentially provide information as to why a particular act is rated as unethical. Similarly, the scale can predict whether an act or decision is perceived as fair or just, or whether it violates certain cultural or traditional values.

Although, so far, the Reidenbach and Robin scales have been applied only in a Western context, in the field of marketing ethics, there is no indication in the existing literature that the scales should be limited to the area of marketing ethics. Different forms of the multidimensional ethics scale have been used in empirical studies in the area of ethics. Cohen et al. (1993, p. 25) claim that the R & R original scale may provide the basis of multidimensional scales, but a scale must be constructed and validated for each application.

a. Questionnaire

The survey on which this paper is based consisted of scenarios reflecting some form of abuse of power on the part of managers/directors, in business context. The R & R scales developed by Reidenbach and Robin (1988) have been used to assess the conduct of perpetrators of such act. The measurement scales are as follows:

Regarding the survey, four hypothetical situations, representing unethical acts of varying consequences, were presented to the sample population. Respondents were requested to rate the act/decision opted for by the person in each scenario. The hypothetical situations referred to cases of abuse of power, with direct consequence on specific stakeholders. Scenario 1 refers to an employee who shows little loyalty to his employer. Having decided to leave the company he is working for, he starts off by operating a side-business, using his employer's name to get customers. Scenario 2 presents a case of favouritism. A member of staff, who knows he faces limited chances of getting a promotion, solicits political influence. This is a common feature of small communities, where the individualistic culture imposes certain obligations on people (Trompenaars and Hampden-Turner, 1998).

Scenarios 3 and 4 are cases of abuse of power. In Scenario 3, a manager pretends he receives no application for projects run overseas because he wants to travel himself. Scenario 4 presents a director who reserves glamorous destinations for himself while he sends junior staff on less attractive ones.

The objective of the present study was to investigate ethical perceptions of the sample population, confronted with cases of power abuse, using the R & R scales. The data was coded and analysed in SPSS.

b. Sample

The sample has the characteristics of a pure random sample, consisting of business people, from middle management upwards, from both the public sector and private institutions. The

sectors covered include retailing, manufacturing, consultancy businesses, the financial services, and the hospitality industry. Of the 400 questionnaires distributed, 104 were completed, that is, the response rate was 26%. The sample was reasonably homogeneous with respect to what was being surveyed, that is, the different aspects of moral philosophy a decision maker may have to consider in evaluating an ethical issue.

Results and Discussion

a. Factor Analysis

Scenario 1

JM has been employed at ABC Insurance Company for years. Having made so many contacts over the years, he feels confident to start a side-business. He offers his potential customers a preferential rate, hoping they would eventually bring him business in future. In the meantime, he is using ABC's name to "promote" the reputation of his own business. Considering that:

1. He has been serving ABC faithfully for years,
2. There are limited prospects for him there, and
3. He feels frustrated working for them,

How would you rate JM's action?

The above case refers to an employee who launches a side-business, and in so doing, poaches his employer's customers.

When they assessed this case, respondents separated the notion of morality from the relativistic dimension. The results show a clear pattern of loadings under a three-factor solution. In this case, the two "duty" scales load onto the third factor, implying that those concepts were less important to respondents as they evaluated the ethicality of the scenario. Operating a side-business without the consent of one's employer constitutes a lack of loyalty and, therefore, is clearly an unethical act. If principles of deontology are applied, this act would be strictly condemned. The employee based himself on the concept of "act utilitarianism" to justify his conduct. The act can therefore be considered as "acceptable" as long as it promotes the perpetrator's long-term interests. Based on the results, and under the same rationale, this act can be associated with the Mauritian culture. The perpetrator would justify it on the basis of the limited prospects offered by his present job, leading to dissatisfaction and frustration. To the ethicist, this type of justification does not, in the least, however, condone unethical options like running a side-business secretly. The three-factor structure has been adopted, considering the clear loadings under each dimension. It may be worth noting that the justice dimension is well represented, with high values appearing under both "fair" and "just". The three-factor solution explains 88% of variation.

Scenario 2

Victor has been employed for some 15 years and is still a "junior." He knows that his chances for getting promoted are average. He contacts a politician, related to a close friend of one of his neighbours. The politician intervenes to do Victor justice. Three months later, Victor gets a major promotion. He is relieved, because, so far he had been thinking that two of his colleagues had a better chance than him.

How would you rate Victor's action in soliciting outside influence?

This scenario involves an employee who solicits political influence to get a promotion, knowing that other colleagues are better qualified than him.

In Scenario 2, the "fair", "just", "acceptable to family" items

load heavily on Factor 1, which seems driven by cultural relativism. The ethical issue presented in Scenario 2 provides a clear example of favouritism, that is, an unethical practice prevalent in small communities. In spite of the presence of a strong element of corrupt practice there, the moral equity scales are highly related to the relativistic factor. This implies that the practice of requesting a favour is justified on the basis of prevailing norms, although other societies may rate this action as totally unethical. There is clear representation of both factors in the scenario. The moral equity scales load heavily on Factor 1, the relativistic and culturally driven dimension. Conceptually, the overlapping of moral scales with relativistic ones implies that a particular culture defines what is ethical, and guides the decision-maker as to what is right and wrong. This, in turn allows the classification of certain practices as fair or just within the culture. Relativism is the belief that ethics and moral values are situational, depending on the time and place, and the way people see things in a specific context. The contractualism scales load separately under Factor 2, the duty-driven dimension. In this case, the two-factor solution explains nearly 68% of the variation in the way respondents handled the scales. This, again, is a significant percentage variation explained with only two factors.

Scenario 3

As manager of AMS Travel Agency, Mervyn receives all applications for projects run overseas. A major project, which would involve an overseas posting, is coming up soon. Mervyn usually screens all applications and sends the best ones to head office for approval. Lately he has undergone a lot of frustration and decided that a break abroad could only do him good. He opts to inform head office that no application has been received and proposes to personally take on the project. This means being away from work for six months and giving his assistant a golden opportunity to step in for him.

Since Mervyn has been so unhappy for a while, how would you rate his decision to go under the excuse that his assistant would get a golden opportunity to step in for him?

This case refers to someone who abuses of the discretion conferred upon him, as manager, and in so doing, violates his social duty towards his staff. The manager pretends that he received no application for projects run overseas because he wants to go abroad himself, rather than send another staff member.

Two-factor analysis offers the solution, accounting for 75% of the variation (Appendix 2). In this particular scenario, the ethical dilemma facing respondents relates to abuse of managerial power/discretion. The moral scales load heavily onto the cultural ones, giving evidence that people associate this type of behaviour with the Mauritian culture. A logical conclusion is that cultural relativism accepts this attitude on the part of the manager, although universal principles would strongly condemn it. The two-factor solution shows high loadings under the moral relativistic dimension and the contractualism dimension. There is a consistent pattern of moral items loading on the relativistic factor.

Scenario 4

The staff of CML often get the opportunity to travel and interact with overseas colleagues. MB, the director, has a tendency to reserve some destinations for himself, simply because junior staff may not be experienced enough to make a good impression.

Assuming the destinations referred to are particularly attractive, participants were requested to rate MB's decision using the multi-dimensional ethics scale.

The above hypothetical situation presents a director who

chooses to go on mission on all glamorous world destinations while he leaves less attractive ones to junior staff. The theme of Scenario 4 compares with that of Scenario 3. This type of abuse of discretion conferred upon individuals of a certain status is quite common in Mauritian context, as it is in other countries of the developing world. Since, from a cultural point of view, such a decision would be considered as acceptable, staff would refrain from expressing any form of dissatisfaction about this type of action on the part of management. On the other hand, again as part of the Mauritian culture, there is no obligation on the part of top management to account for their choices or decisions to their staff. In the absence of this element of accountability, management decisions are communicated on a top-down basis to lower levels of staff. At the same time, some people consider decisions of this nature as the prerogative of management, even though this gives rise to unequal opportunities amongst personnel.

Here, as well, the two-factor structure offers an appropriate solution. It explains 74% of the variation. The loadings are logical and easy to interpret, Factor 1 representing justice and cultural dimensions (fair, acceptable to family, just, traditionally acceptable, culturally acceptable) and Factor 2 representing the duty dimension (violates unwritten contract/unspoken promise).

b. Regression

Regression analysis was run to determine whether the R & R scale is a good predictor of ethical thinking in this study. The aim was to confirm whether the scale items (that represent the different dimensions that people think about when they are judging the ethicality of an act/decision) are useful ways of predicting the person's answer to whether the scenario or action is morally right or wrong in his/her judgement. The following table gives a summary of the adjusted R squared factors for each scenario:

In regression, the key statistic is R squared. It reveals the percentage of variation in "overall ethicality" that is explained by either two or three factors. If the independent variables perfectly predict the overall ethicality, then R squared would be 1.00. If the independent variables (the two or three factors) are not good predictors at all, then R squared is close to zero. In a study like this particular one, an R squared over 0.50 is very good. The more R squared approaches 1.00, the more powerful the regression model. The R squared figure is adjusted to take account of sample size.

Three-factor analysis for Scenario 1 accounted for 88% of the variation. Factor 1 (relativistic scale) explained 55% of the variation, Factor 2 (justice scale) explained an additional of 25% and Factor 3 (duty) accounted for 8%. In regression analysis, Factor 1 (the cultural factor) is the most powerful predictor in the ethicality measurement, explaining nearly 42% of the variation while Factor 2 explains an additional 15% for a total R squared on the regression model of 56.9%. Clearly, cultural and justice factors explain most of the variation while the duty scale is not significant enough to be retained in the regression model. The regression results are presented below:

In Scenario 2, Factor 1, the relativistic scale explains only 39.1% of the variation in the ethicality measurement. In fact, the total R squared on the regression model is 39%. Factor 1 (the cultural factor) is clearly the only predictor in this case. When factor analysis was run, with a two-factor solution, Factor 1 (rel-

ativistic dimension) accounted for 49% of the variation while Factor 2 (duty dimension) explained only 18.5% of the variation. Respondents did not consider the duty factor as important in their assessment of this particular scenario. The contractualism factor did not explain enough variation to be significant and therefore was not retained in the regression model. This gives further evidence of the cultural acceptability of political intervention as a means of guaranteeing career advancement:

In Scenario 3, Factor 1, the relativistic scale explains 58.4% of the variation and Factor 2 explains an additional of 1.5% in the ethicality measurement, for a total R squared on the regression model of 59.9%. Factor 1 (the cultural factor) is clearly the most powerful predictor in Scenario 3. Under factor analysis, Factor 1 (relativistic dimension) explained 56% of the variation while Factor 2 (duty dimension) explained 19% of the variation. Respondents have been guided by both cultural and duty considerations in their evaluation of this ethical issue.

In Scenario 4, Factor 1, the relativistic scale explains 56.2% of the variation and Factor 2 explains an additional of 1.9% in the ethicality measurement, for a total R squared on the regression model of 58.1%. Factor 1 (the cultural factor) is clearly the most powerful predictor in this scenario. Factor analysis explained 74% of the variation, Factor 1 (relativistic dimension) accounting for 60% while Factor 2 (duty dimension) explained an additional 14% of the variation.

The objective under regression analysis was to determine whether the measurement technique, here the R & R scale, is a good predictor of ethical thinking. Regression is a predictive technique. The conclusion is that the R & R scale works in Mauritius. In other words, the scale explained much of the variation in the way the sample surveyed rated each scenario in terms of global ethicality. For each scenario, the saved factors are used to try and predict the answers to the overall ethicality.

Conclusion

Based on the above results, a strong cultural factor accounted for the responses to three out of four of the scenarios. There is evidence of the significance of relativistic factors that explained the responses to the scenarios. The data pertaining to previous studies were all from the Western World, more specifically, the United States. The application of the R & R scale in Mauritius presented a new opportunity, considering that the scale, so far applied to marketing ethics in the developed world, was being used in a developing economy in the context of business more generally.

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Respondents were exposed to four scenarios and they evaluated each case somewhat differently, depending upon the seriousness of the ethical problem. Generally speaking, however, the results give evidence of the strong reliance on cultural factors and confirm that moral evaluations are specific to situations. While earlier studies emphasized the idea of implicit contract and promise as being inherent in the evaluation of an ethical problem, this theory does not hold in the case of Mauritius. In each of the scenarios that composed the survey, there is a contractual/duty dimension that is complementary to the moral dimension.

In three of the scenarios (Scenarios 2, 3 and 4), a two-factor solution was obtained, as participants associated notions of morality with the Mauritian culture. In Scenario 1, on the other hand, a three-factor solution proved to be more appropriate. This may be because the act of poaching one's employer's customers carries a heavy risk, if one were to consider the likely consequences of the act. This explains why participants demonstrated a different pattern of responses, drawing a clear distinction between notions of morality and cultural/traditional acceptability. In all four scenarios, principles of deontology would condemn the acts in question straightaway, as in each case the perpetrator of the act violated his social duty, thereby violating the rights of his stakeholders.

One of the most significant findings of this study is the importance of the cultural/relativistic factor in explaining ethical judgments. This explains the high loadings of the moral equity scales on the relativistic and culturally driven factor in three of the four scenarios, where the two-factor solution accounts for quite a high percentage of the variation. The results obtained constitute a particularity of the Mauritian study, as this pattern has never emerged in earlier applications of the R & R scale in the United States of America. This gives evidence that the model of ethical decision making in Mauritius, a developing nation, is different from the one used in the developed world. It can be said that these survey results emphasise the strength of the cultural/relativistic dimension on ethical thinking in Mauritian context, reflecting the state of emerging economies with an individualistic culture.

The findings of the Mauritian survey show that although the abuse of power on the part of one's superior is considered as an unethical practice, this act is sometimes viewed as culturally acceptable. If education and training in ethics do impact on ethical thinking, how does one extend the reasoning to cover decision-making, in the context of business? A formula must somehow be devised to encourage ethical conduct amongst policy-makers, both in public and private sectors. If stakeholders are to be treated fairly, the law must be applied uniformly to citizens, irrespective of social status.

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Protecting Human Subjects in Internet Research

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Abstract

The growth of the Internet as a research venue has led to practical, legal, and ethical problems regarding the protection of human subjects. Among these are difficulty in verifying subjects' identities, gaining informed consent, and assuring ethically-correct research. The authors summarize the current standards pertaining to the protection of human subjects in online research and present a set of guidelines for dealing ethically, legally, and practically with the issues of privacy and confidentiality, intellectual property, informed consent, and protection from harm. As computer-mediated communications merge and evolve, as the Internet becomes more and more a part of everyday life, and as standards for ethical and lawful online research are instituted, separate consideration of human subject protection issues in online research will become less important.

Keywords

Internet research, research ethics, protection of human subjects, informed consent, privacy, intellectual property

Practical, Legal, and Ethical Challenges

Researchers are increasingly turning to the World Wide Web as a convenient, ubiquitous laboratory for gathering data and conducting research (Buchanan, 2004; Reips, in press). There are many differences between conducting psychological research in a person-to-person setting and an online environment, yet the ethical and legal issues involving the protection of human subjects are the same. Researchers in the Information Age must face and deal responsibly with these issues.

While legal and ethical issues regarding the protection of human subjects participating in online research are essentially the same as those in real-world research, it is likely that the solutions to the ethical dilemmas created by online research will not be the same as those practiced in the laboratory. Solutions that work in the physical world require separate consideration and modification for virtual application.

Social scientists have expressed concern that applying a human-subject-protection model developed for science and medicine to the kinds of research conducted by psychologists, political scientists, and anthropologists was inappropriate even in the real-world environment (AAUP, 2000). Regulations developed for the real-world medical environment are even less appropriate when applied to social science research conducted in an online setting.

The set of United States regulations concerning the protection of human subjects is often referred to as "the Common Rule" (DHHS, 2001), and they are indeed the Common Rule for the United States. However, regulations and ethical standards exist in other parts of the world. Thus, the global nature of Internet research complicates the application of these guidelines. For example, contrasting the United States and Germany, Capurro and Pingle (2001) point out that the research traditions and fundamental ethical assumptions and views of personal data differ widely even within the Western philosophical tradition. The reason for this variation "is that the online medium

transforms basic aspects of human existence, such as identity, language, confidentiality, that are at the core of any society and are protected in most countries by local law" (p. 6). They advocate moving from a "purely instrumental or moralist view" to an "ethics of care."

In this paper, the authors identify several key issues regarding the protection of human subjects in Internet-based research, describe the ethical and legal considerations related to these issues, summarize the present codes addressing these issues both in the United States and Europe, and provide a set of working guidelines for conducting ethical and lawful online research. These guidelines should have broad applicability regardless of the ethical system adopted.

Issues in Internet-Based Research

The commercialized Internet accessible through graphical web browsers is little more than a decade old, but Internet-enabled electronic communication and concomitant research venues have proliferated over that period of time. Computer-mediated communications include electronic mail, chatrooms, newsgroups, listservs, web-based experiments and surveys, message boards, threaded discussion forums, web logs (or blogs), and collaborative web sites. A fundamental issue is whether these venues are to be considered public or private. If they are public, the archived responses of individuals may be construed to be matters of public record, and few ethical considerations apply when the records of these responses are used in research.

If web-based venues are private, however, individuals' responses may be privileged and protected, and could only be used in research with clear protection of the identity, autonomy, and informed consent of the participant. The determination of "private information" by United States statute hinges on the individual participant's "reasonable expectation of privacy" (DHHS, 2001).

In an online environment one's level of technological sophistication could play a major role in determining perceptions of privacy. More experienced Internet us-

ers may be aware of the identifiable digital footprints left behind as they traverse the Internet, while neophytes may believe they are cloaked in electronic anonymity. Privacy, then, must involve more than an objective determination by the researcher alone. The same chatroom that a naïve participant perceives as limited to those actively engaged in discussion may be experienced as less isolated, more transparent, and publicly visible by another.

Knowledgeable, computer-savvy researchers cannot assume that their own perceptions of privacy or lack of it are shared by research participants. Some writers dismiss the issue, describing expectations of privacy as “misplaced” (Walther, 2001). Others describe such beliefs as naïve or unrealistic. Simply dismissing the privacy expectations of naïve subjects as unrealistic begs the question of who is really naïve. It is also possible that the experimental context may alter expectations regarding privacy. For instance, while one would normally not take candy from strangers, one might feel safe taking it from an experimenter. Online, one might feel safer typing in a credit card number on a secure bank web site than on a general site. In the same fashion, subjects might feel that their responses were protected from scrutiny on a web site devoted to an experimental survey.

A second major issue in Internet-based research is the ability of both researchers and subjects to assume anonymous or pseudonymous identities online (Amber, 2000; Frankel & Siang, 1999). This ability to assume or fabricate identity complicates matters regarding informed consent, correct identification of research participants, and protection of underage subjects. There are further ethical implications regarding the integrity of results if the gender, age, and other aspects of identity are uncertain or inaccurate. In the online venue, experimenters often cannot be sure they are even dealing with a single individual, as typists could change without the experimenter's knowledge. A student taking an online test or participating in a survey an online experiment could easily have a parent or another student nearby to provide answers or assistance. The most extreme case would involve an experimenter involved in the naturalistic observation of an individual who did not exist at all. White cites the “Kaycee Nicole” case involving the young girl whose web log documented her fight against cancer. “Readers were shocked to tears” to find she had died and “even more shocked to learn she had never existed” (White, 2001).

Considering the many different Internet venues, it may be convenient to distinguish among three kinds of online psychological research. First, there is experimental research that involves the collection of survey or experimental data via electronic means, whether by electronic mail or via a web site. Normally, survey researchers and web experimenters collect only enough personal information to confirm the identity and the informed consent of participants, and individual participants' responses are typically not reported except as part of an aggregate. A second kind of Internet-based research includes the analysis of online, public documents treated as texts or archives (Knobel, 2003). Third, online research can refer to the study of “Internet-worked cyberspaces” (Knobel, 2003). This third category would include the study of web sites, online chat spaces, instant messaging, e-mail discussion lists, and other kinds of computer-mediated communication (Knobel, 2003).

Protecting Personal Privacy

At the one extreme, some researchers apparently believe that they can freely use information gathered from online public communication sources as long as participants are not person-

ally identified (see for example Denzin, 1999). Such researchers state that information gathered by lurking passively in an Internet chatroom, for example, is a matter of public record. Indeed, the collection and analysis of such publicly available information may be justified without consent under strict circumstances (Bruckman, 2002). In some cases the researcher goes beyond observation to create the virtual environment and may even create virtual confederates who react to the subject in preprogrammed ways (see for example Williams, Cheung & Choi, 2000). At the other extreme, many researchers are taking precautions to ensure that participants in online research are fully informed and give their voluntary consent to the use of their responses in research studies.

After World War II, the Nuremberg Code established the foundation for modern ethical standards for psychological and medical research using human subjects (Gravetter & Gorzano, 2003; Graziano & Raulin, 2000; Katz, 1972). Ethical guidelines for the use and treatment of human subjects embody principles requiring protection from harm, informed consent, and confidentiality.

The primary codes in the United States presently regulating online psychological research are the American Psychological Association Ethics Code (APA, 2002), the U.S. Department of Health and Human Service's Protection of Human Subjects (DHHS, 2001), and the DHHS Health Insurance Portability and Accountability (HIPAA) Act (DHHS, 2003). Additional protection is provided by the Children's Online Privacy Protection (COPPA) Act (FTC, 1998) and the Gramm-Leach-Bliley Act (FTC, 1999). Collectively, these codes are intended to:

- Protect the privacy and confidentiality of individuals and their personally identifiable medical and financial records.
- Ensure that individuals who give consent to have personally identifiable information collected, transmitted, and stored electronically have been fully informed.
- Ensure that no personal information is collected from children under the age of 13 years without informed parental permission.

As well, the Association of Internet Researchers (AoIR) is developing a code of values that all Internet researchers would be expected to uphold when conducting online research. The AoIR is also pursuing clarification and education regarding the ethical dimensions of human-subjects research (AoIR, 2001) and has recently released a set of recommendations for ethical decision making and Internet research (Ess, 2002).

As in the United States, other countries have sought to create ethical standards for online research. These countries include Canada, Germany (Capurro & Pingle, 2001), Norway (NESH, 2001), and Sweden, among others. The European Commission's Information Society Technologies Programme (IST, 2004) has produced a code of practice for socio-economic research in the European community. As indicated by Capurro and Pingle (2001) and Ess (2002), the European perspective on Internet research ethics is more typically deontological than that of researchers in the North America, and particularly the United States, whose views are more typically utilitarian.

Regardless of the global source of data collected and the ethical system adopted, three primary and transcendent principles emerge regarding the protection of human subject, whether the research is conducted in a laboratory or on the Internet. These principles originally delineated in the Belmont Report (NIH, 1979) are autonomy or respect for persons, beneficence, and justice (Frankel & Siang, 1999). The principle of autonomy dictates that the individual should be respected, and that in most cases, he or she must give informed consent to voluntary par-

ticipation in any research activity. Furthermore, the individual's privacy should be reasonably protected. As described by the Belmont Report, two moral requirements are involved in respect for persons "to acknowledge autonomy and to protect those with diminished autonomy." The principle of beneficence requires that the research should produce a benefit—whether to the general good or to the specific individuals who participate, or both. This benefit must outweigh the potential risks associated with the research. The Belmont Report cautions that "hard cases" arise where general good and individual participant risk are both involved. Finally, justice demands that subjects be treated fairly, and that they have the opportunity to withdraw voluntarily from the study at any time without fear of consequence. Justice further involves fair or representative selection of research subjects without discrimination against particular classes due to convenience or manipulability.

Ethical Challenges of Internet Research

The application of these human-subject-protection principles, however, is complicated in online research because the researcher and the subject are not usually face-to-face. Specifically, the Association of Internet Researchers has identified some distinctive challenges of Internet-based research (AoIR, 2001 and Knobel, 2003). Below, the authors present, discuss, and expand the list of Internet-research challenges:

- Greater risk to individual privacy and confidentiality because of greater accessibility of information about individuals, groups, and their communications—and in ways that would prevent subjects from knowing that their behaviors and communications are being observed and recorded (e.g., in a large-scale analysis of postings and exchanges in a USENET newsgroup archive, in a chatroom, etc.). Individuals often have unrealistic, even illusory, expectations concerning their anonymity on the Internet. The truth belies these expectations. Not only are server logs with computer users' Internet Protocol (IP) addresses maintained and backed up to tape and disk, but persistent identifiers (cookies) and other traces of online activity, for example lists of visited web sites, may be recorded as well. Some of these personally-identifiable records may go into additional storage as electronic or hard copy information, which increases the risk of identity capture and exposure in the future. Individuals' responses to questionnaires or surveys, including sensitive personal or financial information, could conceivably be intercepted at various points as they travel across the Internet. When responding to a paper-and-pencil survey, an individual may feel reasonably sure that a questionnaire sent through the postal service will not be opened and read. However, it is debatable as to whether the same individual could be equally confident that e-mail sent from an office computer or a networked computer laboratory would not be intercepted or recorded. Hidden Trojans, worms, or undetected keystroke counting mechanisms could increase the likelihood of survey responses containing sensitive personal information falling into unintended hands even if the survey itself were later to be sent via encrypted processes.

- Greater difficulty of ascertaining identities because of the use of pseudonyms, multiple online identities, etc. As previously mentioned, many individuals adopt pseudonymous identities on the Internet, and often individuals adopt completely false identities. Ascertaining the true identity of research participants requires the collection of personally-identifiable information, yet such information poses a risk to individual privacy, as noted above. Reciprocally, potential subjects may have difficulty

in determining if the individual soliciting research participants is a bona fide researcher whose research is for a legitimate scientific purpose.

- Greater challenges to researchers because of increased difficulty in obtaining informed consent. The aforementioned identity issues have obvious implications for informed consent. Identity is linked to the subject's actual and legal ability to give consent. Questions of competence, comprehension, and age arise. Researchers are challenged to gain informed consent while protecting the subject's privacy. Because the researcher's contact with the subject is electronically-mediated, the documentation of truly informed consent becomes problematic. There are significant trust issues for the subject as well as the researcher. Many potential participants having read of various nefarious Internet schemes may suspect the motives of the "researcher" and believe that the "research" is not what it is purported to be. Such individuals may be hesitant to volunteer or to be completely forthcoming in their responses. This hesitation may increase with the sensitivity of the subject matter and the likelihood of negative repercussions if a breach of confidentiality should occur. In a fashion similar to the findings of research concerning volunteer subjects and demand characteristics in real-world experiments (Rosenthal & Rosnow, 1975; Orne, 1962), individuals willing to volunteer for online research may differ not only from the general population but may also differ from the virtual population of Internet users as well.

- Greater difficulty in discerning ethically-correct approaches because of greater diversity of research venues and the global reach of the media involved. As previously stated, computer-mediated communication engages people from different cultural and legal settings in an increasingly diverse set of research venues. The applicability of various state, federal, and international codes is problematic at best.

- Difficulties in obtaining representative samples due to the economic "digital divide."* The population of individuals using the Internet is better educated and economically more advantaged than the population as a whole, and is grossly overrepresented by North Americans. This has implications for the previously explicated principle of justice. Yet on the other hand, the Internet is less geographically circumscribed than most other research venues, and if used properly, could afford samples with greater cultural diversity.

- Difficulties dealing with potential harm due to the absence of face-to-face contact. This issue is especially troublesome when subject matter, questionnaire items, or experimental manipulations have the potential to result in psychological distress for participants. Debriefing without direct contact with the participant makes assessment of individual reactions and selection of appropriate interventions difficult (Kraut, 2003). Protective debriefing may be more difficult because the subject could leave the experimental space with the click of a button prior to the end of the experiment. This could be an even larger issue in an experiment involving deception such as the social ostracism experiment of Williams, Cheung, and Choi (2000) where the subject might never know the nature of deception.

Intellectual Property Issues

In addition to the ethical issues involved with online data

* Note: The previous four challenges were identified by the AoIR Ethics Working Committee and are presented with adaptation and elaboration by the present authors. These last two points are added by the present authors.

collection, there is another issue regarding intellectual property, namely the question of whether a subject's responses to an online data collection device such as a survey or the records in a web-based journal are behavioral responses or in fact original works of authorship. If such responses are considered behavioral signs or samples, as is usually the case in psychological research, copyright considerations hardly apply. If, on the other hand, they are considered original works, they are de facto copyrighted under the U.S. Copyright laws whether or not they display a copyright symbol (U.S. Copyright Office, 2003). As such, these materials could only be used with the express written consent of the copyright owner.

Similarly, the European community has sought to apply harmonize copyright standards across member countries via the recently enacted Directive on the Harmonisation of Copyright and Related Rights in the Information Society (IST, 2004).

The Future and Internet Research

Online research is married to the technology that enables it. Even now the virtual world resembles the real world more and more as desktop video conferencing, file sharing, audio instant messaging, text messages, cell phones with built-in video cameras, and other computer-mediated communication become more prevalent and blur the distinction between online and face-to-face interactions. The technologies themselves are merging; with the dividing lines between telephone, Internet, and television blurring even more as each of the media take advantage of the technology offered by the others.

Computer-mediated communication technologies are not only merging, but also evolving. Collaborative workspaces, virtual organizations, electronic commerce, and online courses and degrees all create interesting and important research questions. Moreover, researchers are not always passive observers. The growth of the Internet has led to the involvement of researchers as participants themselves in Internet-based groups. Such participation may involve different roles such as facilitator, advisor, peer member, or even service provider (Humphreys, Winzberg, & Klaw, 2000). Disclosure as to the particular role(s) being performed is obviously dictated. As the Internet continues to become a part of everyday life, and as technologies merge and come to resemble real world research contexts, the differences between online and laboratory ethical strictures will likely contract if not collapse. Global communication technology, along with global research venues and subject pools, will increasingly necessitate sensitivity to diverse cross-cultural conceptions and traditions regarding privacy and the integrity of individuals. Notions of beneficence and justice must be interpreted in a broader context. In the meantime, working solutions and guidelines should be implemented to address current ethical dilemmas in online research.

Some Proposed Guidelines for Conducting Ethical Online Research

While ethical standards regarding Internet-based psychological research are currently incomplete at best and contradictory at worst, the authors' recommendations should assist researchers in conducting ethical and lawful online studies.

Guideline 1

Internet research should conform to legal requirements. It is

assumed here that ethical research will also be research that is lawful. For the purposes of these guidelines, United States regulations are the starting point of legal reference. International research will have the more complicated problem of conforming to more than one set of regulations. It is particularly important that international and cross-cultural research have specific and detailed informed consent so that consent is based on fact rather than cultural expectation or researchers' assumptions.

Guideline 2

Public matter can be quoted or analyzed without consent under the following strict conditions (adapted from Bruckman, 2002):

1. The material is publicly archived and readily available.
2. No password is required to access the material.
3. The material is not sensitive in nature.
4. No stated site policy prohibits the use of the material.

In all other cases, consent should be obtained before the research is conducted. It should be noted that in the United States, when human subjects are involved, the decision to waive consent is no longer that of the researcher alone. Consent must be waived by the appropriate Institutional Review Board (IRB) using procedures and guidelines described in the Federal regulations.

Guideline 3

Gain informed consent without disrupting online activity. Participants in psychological research, whether the research is conducted online or in person, have a reasonable expectation of privacy. The gaining of informed consent should allow participants to verify that they understand the purpose of the research and the means taken to protect their privacy and confidentiality. In addition, wherever the use of online communication involves intellectual property, the ownership of that property should be identified, and the permission of the copyright holder should be obtained before the material is used in research. Some Internet writings are clearly meant to be publications or at least works of original authorship. Other writings, such as casual instant messages or chatroom comments more closely resemble conversation where privacy expectations are different. There is a full continuum of examples and expectation between these extremes. Researchers should be aware of where their research stands on that continuum. When in doubt the consent or permission of the research participant is in order.

Electronic forms of gaining consent may be appropriate if the subject is fully informed and is over the age of 18 years, and the potential risk to the subject is low (Bruckman, 2002). In other conditions, it is usually advisable to obtain signatures on paper to document informed consent. The nature of gaining consent, whether electronic or paper-based, should be minimally disruptive to participants' online activity. In recognition of the COPPA requirements in the United States, the participation of children under the age of 13 years in research should be granted by informed parental permission. Where feasible the child participant additionally should be asked for consent. It may be difficult to ascertain the subject's age with absolute confidence. However, the experimenter should make every effort to do so given the limitations of the online research venue. Asking for date of birth, in addition to age, and the use of other verifying information may help ensure the process.

As part of informing consent and protecting underage children, researchers should routinely post privacy policies on web sites used for data collection purposes. Active rather than passive consent processes are preferred. In some cases the consent

could take the form of agreeing that entry into a chatroom constitutes entry into a public forum where behavior may be monitored, observed, and reported elsewhere or even used for research. Online, individuals frequently simply click through or agree to privacy statements without reading them. It may be advisable as well for researchers to require participants to answer a series of objective questions about the research to document their informed consent. Obviously, there will be a tradeoff between the use of questions to verify understanding and minimizing disruption.

Guideline 4

Protect the identities and confidentiality of online subjects. As part of informed consent, subjects should be made aware of the researcher's intentions regarding the degree of revelation of their identities, and should give permission for the use of both names and pseudonyms. The strictest standards of confidentiality should be applied. Identities of subjects should be separated from their responses wherever and whenever possible.

Guideline 5

Practice disclosure. The researcher should disclose the purpose of his/her study, the methods of collecting data, and plans for analyzing and reporting data. If there are incentives for participation, they should be explained, and should not constitute enticement or coercion. Rarely would Internet-based researchers need to resort to deception to achieve their research goals (Frankel & Siang, 1999), so the use of deception in online research should be avoided or kept to an absolute minimum. To the extent possible, researchers should follow the same standards for debriefing subjects in online research as those for real-world studies. In cases where a subject may elect to leave a site prematurely, the debriefing frame should be a required part of the exit procedure.

Guideline 6

Use technological solutions to technology-caused problems such as electronic links to identity. Kraut (2003) suggests transmitting and storing identifiers separately from the data, in effect disconnecting the identifiers from the data, using session cookies to tie together responses and storing them somewhere other than on the same disk or file as the data, identifying the participant only for the duration of the session, avoiding e-mailed responses which involve identifiers, and possibly even encrypting the data. It is important to recognize that confidential data stored in networked computers, especially in widely accessible computer labs, may be at great risk for outside access, therefore storage on removable disks or CDs is preferable.

It is generally recognized that in online survey research it is better to e-mail a link to a web site where one can respond to the questionnaire in relative anonymity than it is to e-mail the questionnaire itself and require it to be returned by email with the commensurate links to identifiers. Commercial survey sites are available that will post questionnaires for a fee. These services vary in the degree to which anonymity and confidentiality are protected, so careful attention should be made to each site's privacy policies.

Guideline 7

Consult with the appropriate Institutional Research Board(s) (IRB) and follow their recommendations and directives. IRB members vary in their knowledge of and sensitivity to online research issues. The online researcher should maintain two-way communication with the expedited reviewer(s) and

those on the IRB with knowledge of online research. It is quite possible that more than one institution's IRB may be involved when conducting research across institutions. It is the researcher's responsibility to seek approval from each. If the researcher has doubts concerning IRB jurisdiction, the Office for Protection From Risks, Protection of Human Subjects can be contacted directly. Federal regulations set a floor on what research activities may be permissible. Institutions are encouraged to elaborate these regulations to further protect the research participants under their care, and to address other ethical concerns. Thus, it is likely that restrictions on Internet and other forms of human subject research are tighter at some institutions than others. Thus researchers may find what is permissible in one place may be disallowed in another either for ethical or practical reasons. In some cases it is necessary for the researcher to seek institutional permission when using the institution's e-mail to contact or solicit employees, students, or other individuals for research. Institutional consent may be further needed when the research involves that institution.

Below, the authors provide a tabular summary of their proposed guidelines for conducting ethical online research:

SUMMARY

Guideline 1. Internet research should conform to legal requirements.

Guideline 2. Public matter can be quoted or analyzed without consent under the following strict conditions (adapted from Bruckman, 2002):

- The information is publicly archived and readily available.
- No password is required to access the information.
- The material is not sensitive in nature.
- No stated site policy prohibits the use of the material.

Guideline 3. Gain informed consent without disrupting online activity.

Guideline 4. Protect the identities and confidentiality of online subjects.

Guideline 5. Practice disclosure.

Guideline 6. Use technological solutions to problems caused by technology such as electronic links to participants' identities.

Guideline 7. Consult with the appropriate Institutional Review Boards and follow their recommendations and directives.

Table 1. Summary of Proposed Guidelines for Ethical Internet Research

Conclusion

The growing use of the Internet as a worldwide research laboratory brings with it a number of practical, ethical, and legal challenges. Chief among these are the difficulty in obtaining truly informed consent, the protection of research participants' privacy and confidentiality, difficulty in verifying participants' identities, difficulty in choosing ethically-correct approaches, problems in obtaining representative samples, and difficulties in protecting subjects from potential harm and providing appropriate debriefing. Additionally, difficulties regarding the perception of privacy and intellectual property currently obfuscate understanding of the best practices for ethical research and protection of subjects' expectations of reasonable privacy.

Ethical codes for human subjects' protection in an online environment are in a state of flux, with standards currently being developed simultaneously around the globe. As these standards are eventually integrated, the ethical issues should be clarified, and widely-accepted approaches for dealing with them should

be forthcoming. In the interim, the authors propose a set of working guidelines that should suffice to ensure that online research is conducted ethically and lawfully. These guidelines include consideration of what constitutes public matter that can be accessed and researched without consent, gaining informed consent in all other cases, protecting the privacy and confidentiality of online subjects, practicing disclosure, using technology to address technology-created ethical issues, and gaining appropriate institutional permission for conducting the research.

Researchers should be aware of the evolutionary nature of technology. Today's solutions may differ from tomorrow's,

though basic ethical principles will still apply. Technology's relatively rapid movement and evolution makes it necessary for online researchers to stay abreast of advances in online research techniques and concomitant threats to privacy of human subjects. The protections of newer technologies should be employed as they become available. The authors anticipate that as the virtual environment comes to resemble the real world and is more thoroughly integrated into it, the distinctive nature of conducting research online will be lessened and online research will come to resemble more and more the conduct of face-to-face research.

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Book Review:

Values-Based Leadership: A Revolutionary Approach to Business Success and Personal Prosperity

Kenneth Majer
(MajerCommunications, San Diego,
California, U.S.A.; 2004; ISBN 0-
9743940-0-9) U.S.\$26.00

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In recent years, the business world has experienced a disturbing decline in the expression of positive values by some of its leaders which, in turn, led to difficulties and even collapses of several significant companies (e.g., Enron, WorldCom, and HealthSouth). These business debacles were primarily caused by a lack of self-discipline of some company leaders and the absence of suitable organization guidelines and government regulations.

Companies typically begin to struggle when corporate values differ from the values held by employees. The result is that some employees begin to bend the rules while others lose enthusiasm for their work and disengage from daily business and work-related social activities. Unfortunately all too often, employees feel that they can express their values more often at home than at work. However, values (i.e., "esteemed qualities which are intrinsically desirable and have importance") play a major role in how people in organizations interact with each other, how business leaders run their organizations, and what reputation a company has in the local community and greater business world. Discussing values at work is done rarely although it is important because each person has his/her own set of values which are responsible for each individual's behavior.

A few months ago, I came across an interesting book about values-based leadership which I believe is worth the investment. The book consists of 18 short chapters, is easy to read, and can be finished within only a few hours. The author provides practical guidelines on how to define values and create a positive value system for an organization by involving all employees. He also engages the reader in a novel format and introduces him to the principles and processes of ethical leadership.

The book is about Robb Reinhart, a CEO of a major Midwestern U.S. food distribution company, who realizes one day that his company is drifting away from its business goals because of the lack of a strong foundation of values to

guide positive and consistent behavior. Reinhart undertook a philosophical journey with the help of his son's soccer coach Bobby Olson. Olson served as a mentor for Reinhart and helped him to understand that recognizing and nurturing winning attitudes which come from within each person (i.e., from the personal values they hold), is the key to success of individuals as well as teams.

During his journey, Reinhart underwent deep introspection which allowed him to reflect on the set of five values (Honesty, Integrity, Profits, People, and Opportunity) that have guided his life and which he chose as the foundation for running the company. He suddenly realized that the people in his company were not living these values anymore. The reason is that these values are his values and not necessarily the values of his employees. He met with his executive team and asked a simple question to find out about their values: "How do you like to spend your time when you are not working?" This question initiated a lively discussion and within a few hours, the executive team had a list of thirty-two values of which they finally selected five central core values (Customer Satisfaction, Trust, Communication, Learning, and Respect). To validate these values, they sent an email questionnaire to all employees of the company. This was important because they needed a broad support base if creating a values-based company culture was going to be successful. With the input of all employees, they finally created a commonly accepted set of six core values (Customer Satisfaction, Trust, Communication, Learning, Respect, and Honesty). In order to implement this values-based culture throughout the company, they used the following implementation principles: (1) Involve everyone in the creation of a set of values; (2) Create a compelling vision of the future; (3) Communicate expectations clearly; and (4) Monitor and reward the right behaviors. Then they formed four teams to come up with recommendations for each of these principles. They were

highly engaged, creative, and considered everything including voicemail, email, public relations, and advertising. They also created a huge wall poster which was entitled: "How We Do Things Around Here – and Why." They developed a plan of action over the next six months with clear accountabilities and deadlines. This finally led to the successful implementation of a values-based company culture.

In conclusion, I believe that this book is an excellent guide for leaders in both profit and nonprofit organizations. It is also a very useful book for academicians teaching students what values-based leadership is all about and how it can be reached. In

fact, I used this book in the classroom with business graduate students, and we created together a set of core values for our classroom team by following the guidelines laid out in Kenneth Majer's book. All students were highly engaged in this exercise and several of them indicated that they would like to try out this exercise in their organizations. I believe that the ideas presented in Majer's book come at a very appropriate time, which means, at a time when many good companies fail because of a lack of values-based leadership and ethical performance of organizations.

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