

ISSN 2326-3776 (Print)

ISSN 2326-3806 (Online)

The logo features a stylized lowercase 'e' inside a circle, with horizontal lines below it resembling a lightbulb or a series of steps.

# Journal of Ethics & Entrepreneurship™

Vol. 4, No. 2 Fall 2014

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## FUNDING OF JEE

The **Journal of Ethics & Entrepreneurship (JEE)** is funded in its entirety by the John and Linda Godbold School of Business Endowment. This multi-million dollar endowment was created in 2008 at Gardner-Webb University to fund initiatives for education, culture, tradition, faith, scholarship and leadership. Among the projects created was a Center for Ethics and Entrepreneurship. And one of the projects of the Center was to publish a journal that contained scholarly articles about the connection between business ethics and entrepreneurship. Mr. Godbold, an astute and well-respected entrepreneur, had proven that it was possible to create enterprises that were both extremely profitable and uncompromisingly “ethical” at the same time.

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# The Impact of Parent Organization Ethical Climate on Entrepreneurial Sales Agent Behavior and Performance

Frankie J. Weinburg, Jay P. Mulki,  
and David A. Locander

## ABSTRACT

What role does ethical climate have on work behaviors and productivity of organizational agents? Specifically, although research suggests that an ethical workplace climate has the potential to contribute to organizational viability, questions remain regarding how it influences those individuals who work in the periphery of the organization. An agent sales force presents a particular challenge to parent organization decision-makers due to their relatively isolated positions. In this study, we draw on agency and stakeholder theories to make the case that an ethical climate aids in organizational governance and impacts work behaviors related to performance. Findings suggest that perception of an ethical climate influences the degrees to which entrepreneurial salespeople work both hard and smart, and we replicate previous findings that both of these work behaviors influence job performance. Further, tolerance for ambiguity is tested for its potential moderating influence between ethical climate and work behaviors in our structural equation model.

**KEY WORDS:** *Ethical Climate, Tolerance for Ambiguity, Working Hard, Working Smart, Sales, Performance.*

**FRANKIE J. WEINBERG** is an Assistant Professor of Management in the College of Business at Loyola University New Orleans, 6363 St. Charles Avenue, New Orleans, LA 70118. Telephone: 716.359.0026 Email: [weinberg@loyno.edu](mailto:weinberg@loyno.edu)

**JAY P. MULKI** is an Assistant Professor of Marketing and the Renfro Fellow in the D'Amore-McKim School of Business at Northeastern University, 360 Huntington Avenue, Boston MA 02115. Telephone: 617.373.5740 Email: [j.mulki@neu.edu](mailto:j.mulki@neu.edu)

**DAVID A. LOCANDER** is an Assistant Professor of Marketing in the Mihaylo College of Business and Economics at California State University, Fullerton, CA 92834. Telephone: 904.568.8869 Email: [dlocander70@gmail.com](mailto:dlocander70@gmail.com)

## INTRODUCTION

Today, in most business organizations, there is little debate about the need for a code of ethics to guide employee behavior and decision making (Finkle & Mallin, 2011; Mallin & Serviere-Munoz, 2012).

Institutionalization of an ethical climate is not only important toward counteracting occurrences of unethical and illegal behavior (Sims, 1991), but in so doing, it creates a code of conduct for employees that ultimately ensures the firm's long term viability (Grisaffe & Jaramillo, 2007; Roman & Ruiz, 2005). Accordingly, there has emerged the beginning of a gradual shift in ethics research from understanding the compliance mentality of avoiding penalties to one of exploring the benefits of conducting business ethically. From an agency theory perspective, organizations that separate ownership from control often struggle to motivate their empowered agents to behave in a manner that is in the best interest of both the principal and the agent. A strong ethical climate may be one of the few forms of governance that effectively bridges the gap between a principal organization and its distal agents.

Our investigation is motivated by recent evidence in the literature suggesting that a perceived ethical climate may be associated with positive workplace outcomes (Jin et al., 2013; Peloza et al., 2009), and the need for parent organizations to provide effective means through which to influence the work behaviors of their empowered agents (Eisenhardt, 1989; Gong, 2003). Recently, Schaubroeck, Hannah, Avolio, et al. (2012) built on Schein's (2010) model of organizational culture and leadership by accounting for the complexity associated with proximal versus distal relationship. Their findings suggest the importance of differentially accounting for distal organizational agents' responses to an organization's ethical climate. Moreover, recent conceptual research expresses the importance of considering the impact that deployment of organizational systems (such as a values-based or ethical culture) has on individuals throughout the organization (Weinberg & Locander, 2014). Distal agents are likely to consider parent organization behavioral norms as direction to guide their own behavior (Pearce, 1997). An ethical climate represents an important component of an organization's managerial philosophy (Cohen, 1995). Whereas managerial philosophy shapes behavior among agents (Donaldson & Lorsch, 1983), the way in which members of a firm's entrepreneurial units approach decision-making tasks will be influenced by their parent organization's climate and philosophy (Pearce, 1997; Schneider & DeMeyer, 1991). This occurs, in part, because social norms provide a vital channel for influence in an entrepreneurial context (Krueger & Brazeal, 1994).

We draw on a stream of research that conceptualizes ethical systems as a governance tool for organizations (e.g., Caldwell & Karri, 2005; Weaver et al., 1999). As an important part of an organization's culture, an ethical climate provides standards, codes, and principles that set guidelines to govern behavior such that members of the organization "learn which values are held in high esteem, and which are rewarded (Appelbaum, Deguire, & Lay, 2005, pp. 43-44; Lewis, 1985). Caldwell and Karri (2005) account for stewardship as an accompaniment to the traditional agency and stakeholder approaches to corporate governance. By drawing on their conceptual framework, the present study expands on stakeholder theory's concept of the firm as a contract (Freeman & Evan, 1991) by considering ethical climate as a perceived "set of heuristics or social contracts" that establish normative values which ultimately guide and motivate agent behavior (Caldwell & Karri, 2005, p. 251; Donaldson & Preston, 1995). It is commonly known that agency problems arise when communication between the parties is lacking and therefore the principal is unable to ensure that the agent is working toward the principal's best interest (Eisenhardt, 1989). By establishing clearly defined normative values, an organization is likely to reduce issues associated with the principal-agent problem. This comes about, in part, due to the principal organization's ethical code setting a clear tacit understanding of behavioral norms. This understanding sets the stage for agent-perceived psychological contracts (Rousseau, 1995).

Clearly defined normative values result in a perceptual contract between agent and the parent organization. Rousseau (1995) discusses the importance of perceived implicit psychological contracts as an important influence on agents' work as a representative of the organization. An agent's perception of the parent firm's ethical climate fits within the framework of implicit contracts theory, as it provides an agency-supported heuristic process or method to follow. Ethical climate offers a relatively solemn agreement, or covenant, to guide performance and action. Moreover, perceived ethical climate fits Barnett and Schubert (2002) and Caldwell and Karri (2005)'s conceptualization of covenantal relationships, as it represents a specialized form of implicit contract that has both transactional and psychological components. As an ethical climate is both communicated to agents and enforced by the governing organization (Schwepker, 2001), it has an effect above and beyond that of traditional control and incentive systems (Caldwell & Karri, 2005). It is our contention that this form of parent organization control will affect the work behaviors of its entrepreneurial sales agents.

Underrepresented in most empirical studies of agency relationships and ethical climate are manufacturer's representatives who are "entrepreneurial

and independent sales people” whose everyday actions represent the interests of a principal parent organization (Finkle & Mallin, 2011, p. 32). In the case where agent sales force members run their own entrepreneurial units (i.e., real estate brokers who own an affiliate branch of a national organization, franchisees who operate under the auspices of the franchisor’s business, or a team of insurance agents who open a local branch office and whose identity is related to that of their underwriting organization), the parent organization is legally bound to provide corporate governance and oversight. Parent organization oversight is expected to specify the “level and nature of risks accepted or imposed” and the “procedures and systems for allocating responsibility, authority, and control” (Pearce, 1997, p. 207; Ring & Van de Ven, 1992). Organizations often respond to these demands, in part, by setting a standard for ethical behavior and prescribing policies regarding how business is to be conducted (Schaan, 1983). However, while evidence clearly exists that agents who represent parent organizations generally conduct their business operations in a way that is contractually consistent with the encapsulating organization’s procedural methods (Rubin, 1978), it remains unclear how the parent organization’s climate for ethics influences the daily interactive behaviors of these individuals. Thus, the question remains as to what degree the perceived ethical climate of a parent company affects agent-entrepreneur work and performance. A focus on an entrepreneurial sales context is warranted for primarily two reasons: (1) salespeople (and particularly those whose business operations are regionally dispersed from other agents) tend to work more in isolation from the rest of their organization, and therefore do not experience the level of ethical modeling behavior found in a more traditional office setting; and (2) salespeople generally experience a great degree of contextual pressure to achieve sales quotas. Essentially, salespeople are boundary spanners who deal with disparate groups of customers, work without close supervision, and usually are incentivized to reach concrete performance measures (Mallin & Serviere-Munoz, 2012; Wotruba, 1990). By studying the relationship between perceptions of a parent organization’s ethical climate and sales agent behaviors, the present study provides us the capacity to expand the emergent literature which makes the case that proactively weaving ethical values into an organization’s culture is not only the right thing to do, but also provides a strong foundation to enhance business outcomes.

### **THEORETICAL FOUNDATION AND HYPOTHESIS DEVELOPMENT**

Ethical climate is an important element of work climate and has been shown to influence behavior within organizations (Wimbush and Shepard, 1994; DeConinck, 2011). Victor and Cullen (1987) define an organization’s

climate with respect to ethics as “the shared perceptions of what is ethically correct behavior and how ethical issues should be handled (p. 52).” Sims (1991) makes the case that developing and managing an ethical philosophy within an organization is such an important role that it should not be relegated to a sideline activity, but rather represents the core essence of the company. According to Krueger and Brazeal (1994), “a supportive culture encompasses structures, reward systems, and support mechanisms that collectively reinforce values and norms [while remaining] favorable toward entrepreneurship and innovation” (p. 100). Such perceived values influence agent beliefs regarding the viability of entrepreneurial pursuits and their propensity for achievement (Peterson & Roquebert, 1993). An ethical base to a company’s work environment has been shown to influence worker perceptions and practices as well as the crafting of procedures intended to guide behavior (Victor & Cullen, 1988; Babin et al., 2000). Moreover, DeConinck (2011) argues that an ethical climate has a motivational influence on agents’ behaviors through the mechanism of organizational identification, and the relationship between ethical climate and positive organizational outcomes has been empirically upheld in the context of field sales representatives (Mulki et al., 2009). However, what remains in question is the degree to which ethical climate bridges the gap between a parent organization’s standards and the work behaviors of a distal agent salesforce.

### **Ethical Climate and Effort**

An ethical climate provides the governance necessary for agents to act as stewards of the organization. Therefore, when they perceive a strong ethical climate, agents believe that pursuit of organizational goals will allow them to satisfy both personal and organizational needs (Hosmer, 1996). Moreover, it has been argued that an ethical climate motivates employees and “help[s] them to diagnose and assess situations” (Parboteeah & Cullen, 2003; Singh & Singh, 2012, p. 146). From this, and drawing on Caldwell and Karri’s (2005) conceptualization of ethical governance systems, it stands to reason that agents will perceive working hard and smart as contextually rational behavior in an ethical climate. Piccolo et al. (2010) found that a demonstrated commitment by the organization’s leadership to ethical behavior motivates employees to work harder. Researchers attribute this increased motivation and extra effort to followers’ perceptions of their leader’s commitment to ethical behavior (Jaramillo et al., 2009; Mulki et al., 2009). When leaders are viewed as supporting ethical behavior, employees perceive their job significance to be positively impacted (Piccolo et al., 2010), thus creating positive feelings about their job and organization. Specifically, Mulki et al. (2009) found that salespeople are willing to put in

extra effort when their organization's ethical reputation is high. Another possible explanation is that a perceived ethical climate empowers agents to consider service over self-interest (Block, 1993), and, as Singh and Singh (2012) surmise, this type of self-leadership and perspective of duty "motivates an individual to make efforts toward work ... [even when there is] no expectation of rewards in return (p. 144).

Moreover, an ethical climate may be considered one form of behavior-based organizational control system. Behavior-based systems, as opposed to outcome-based systems, direct "managers and sales force efforts towards achieving long-term objectives" and may be considered an "instrument to enculturate" the sales force so that members adhere to the organization's standards of acceptable conduct and behavior (Ojikutu et al., 2013, p. 274). As a behavior-based form of control, a perceived ethical climate may empower employees to make high self-efficacy judgments and be motivated to take action (Bandura, 1982). In accordance with this, previous sales force research has established a connection between these forms of motivation and a number of outcomes associated with working hard, including the number of calls made and the quantity of sales (Barling & Beattie, 1983). Based on this, we expect that:

*H1: Ethical climate is positively related to working hard.*

Working smart, through deliberate thinking and regulation of thoughts, involves developing and implementing plans to achieve goals (Diefendorff and Lord 2003). This type of behavior aligns with Davis, Schoorman, and Donaldson's (1997) explanation of organizational stewardship as entailing an agent deliberately choosing to engage in pro-organizational, cooperative, and rational behaviors that are aligned with the parent organization's goals. Thus, by establishing a covenantal relationship between an agent and principal, an ethical climate may encourage agents to engage in smart, well-directed effort by implying that this type of behavior is contextually relevant (Caldwell & Karri, 2005). This style of work requires a degree of "contextual intelligence" (Sujan et al., 1994, p. 40) in which an employee feels prepared to respond to dilemmas, including ethical dilemmas faced in the course of work. This line of reasoning is congruent with Sternberg's (1985) conjecture that we should view intelligent choices contextually. Ames and Archer (1988) found support for the argument that climate can have significant implications on one's use of effective strategies. An organization's ethical climate frames a salesperson's response to situational dangers or dilemmas by posing a set of tacit guidelines regarding what constitutes a response to opportunities where alternative potentially unethical behavior may have otherwise appeared warranted. In this vein,

ethical climate may be considered a challenge stressor for salespeople in that it promotes growth and achievement through the expectation of increased responsibility (Cavanaugh, Boswell, Roehling, & Boudreau, 2000; Jaramillo, Mulki, & Boles, 2013). Accordingly, as a challenge stressor, an ethical climate enables a salesperson to cope with options in the face of increasing demands and motivate him or her to perform at higher levels (Jaramillo et al., 2013; LePine, Podsakoff, & LePine, 2005). It follows that when employees perceive a strong ethical climate in their organizations, it provides them with a framework for planning their behaviors and actions, and that such a climate encourages one to make intelligent choices within the context of work. Thus, we posit the following:

*H2: Ethical climate is positively related to working smart.*

### **The Moderating Impact of Tolerance for Ambiguity**

In considering the influence of an organization's climate on agent behaviors, it is useful to consider Lewin's (1951) theory of quasi-stationary equilibrium. Lewin's theory suggests that one's behavior comes about from a dynamic interaction of forces including not only social norms and external restraints (such as the influence of an ethical climate) but also internal needs or desires (Elsass & Veiga, 1994). For this reason, it is worth considering the influence that individual-level variables have on the relationship between organizational climate and agent behavior. Katsaros and Nicolaidis (2012) note the important role that one's tolerance for ambiguity plays in human behavior. Reactions to various situations and the resulting responses in a workplace setting make tolerance for ambiguity an important construct for investigating the relationship of perceived ethical climate and resulting agent behaviors. The roots of the construct are found in the early work of Budner (1962), who defines it as "the tendency to perceive ambiguous situations as desirable" (p.29). The power of ambiguity is captured by Katsaros and Nicolaidis (2012) who state that it is "an innate characteristic of nature" (p.37) which influences both personal perceptions and attitudes. If people have a low tolerance for ambiguity, they experience stress and react by avoiding certain situations. But, those with a high tolerance see such situations as desirable and even challenging, and are able to live with the resulting incongruity (Kirton, 1981).

Budner (1962) sees three types of ambiguous situations: (1) a novel situation in which things are completely new to the individual, (2) a complex situation where there exists excessive complexity as perceived by the individual, and (3) issues where opposing forces or situations are difficult to resolve. More than any other organizational employee, salespeople often find themselves facing customer requests that may be

ambiguous and conflicting. There are probably no other situations in an agent's professional life which are as novel and/or complex and subject to countervailing forces than the dilemmas which might be present in their sales interactions.

Successful salespeople stand out by their ability to make decisions when faced with ambiguity. Accordingly, a salesperson's ability to make timely decisions and take action when faced with ambiguous situations is a key factor to successful sales. In part, thinking analytically through complex situations and acting promptly is a function of one's ability to handle ambiguity (Hammond, Hamm, Grassia, & Pearson, 1997; Locander, Mulki, & Weinberg, 2014). An ethical climate provides guidance and norms for salesperson behavior, as it provides a strong foundational base to guide one's effort and to make decisions. For example, for salespeople with lower tolerance for ambiguity, the existence of an ethical climate and guidelines creates the perception of a safety net and may strengthen the relationship between ethical climate and effort. This is in line with previous research which shows that individuals with low tolerance for ambiguity seek and rely on social support from the organization (Vardi & Weitz, 2003).

Those with low tolerance, when faced with ambiguous situations, are more likely to be limited by and seek comfort in the codes of conduct, guidelines, and norms that are associated with the organization's ethical climate, relying heavily upon them as a primary basis for their behavioral choices. Conversely, faced with similarly ambiguous situations, high tolerance salespeople would not necessarily rely solely on the organization's established ethical code as their primary source to guide behavior, but rather are likely to use them as bases for making reasoned decisions and utilizing guidelines to develop unique behavioral responses appropriate to each novel situation. Therefore, we expect that a salesperson with high tolerance for ambiguity would be able to reason more autonomously in forming alternatives and in making choices. We anticipate that those with low tolerance for ambiguity will feel empowered by a strong ethical climate, as it provides them with a measure of psychological safety which encourages effort in the forms of working hard and smart. For those with a high tolerance for ambiguity, a perceived strong ethical climate may not matter as much, as these individuals are likely to embrace ambiguity as a normal course of events. From this, we put forth the following hypotheses:

*H3a: Tolerance for ambiguity moderates the relationship between ethical climate and working hard, such that low tolerance for ambiguity strengthens this relationship.*

*H3b: Tolerance for ambiguity moderates the relationship between ethical climate and working smart, such that low tolerance for ambiguity strengthens this relationship.*

### **Effort and Job Performance**

The positive relationship between effort and job performance has been the subject of numerous studies, and in our model, performance serves the purpose of providing an observable manifestation for our nomological network. Literature suggests that job performance results largely from individual efforts and their choices of strategy and tactics (Bandura, 2001; Klein, 1989; Latham and Budworth, 2005; Rapp et al., 2006). Given the nature of sales jobs, the effort-performance relationship is clearly evident, as salespeople use their discretion in regulating their level and intensity of effort to achieve successful results. Effort represents the amount of time and energy spent as an input to the selling process (i.e., working hard), and the degree to which this exertion of energy is well-directed (i.e., working smart). Further, McClean and Collins (2011) posit that higher effort by salespeople positively influences customer repeat buying behavior. This is consistent with numerous other studies where employee efforts with regard to working smart and hard have shown strong positive correlations with job performance (e.g., Churchill et al., 1985; Hackman & Porter, 1968; Leong et al., 1994). Based on this, the following replicate hypotheses are put forth:

*H4a: Working hard is positively related to job performance.*

*H4b: Working smart is positively related to job performance.*

## **METHOD**

### **Sample and Procedure**

Responses for this study were gathered from nationwide agents for a large medical supply company. These entrepreneurs take on business-to-business sales responsibilities within their respective territories. This sample provides a unique opportunity to study the influence of a parent organization's ethical climate on the behavior of distal agent-entrepreneurs. Moreover, as entrepreneurial sales representatives often face ambiguous situations requiring considerable time and effort, this sample offers an appropriate outlet in which to investigate factors that influence smart and hard efforts on the job. The survey questionnaire was administered with the support of the senior managers of the parent firm at the firm's annual national sales meeting. It was distributed by one of the researchers who briefly explained the project and guaranteed confidentiality of individual responses. A total of 210 completed questionnaires were collected,

representing a 95% response rate. Five incomplete surveys were discarded and a total of 205 responses were coded for analysis. Respondents' mean age was 45.17 years. The majority of respondents were male (71%), and respondents reported average sales experience of

### **Measures**

All latent constructs were measured with instruments which have established psychometric validity across several organizational and marketing studies. Ethical climate was measured using a scale from Schwepker (2001) that has been widely used in management and marketing studies (ETHCS). Schwepker's scale captures the extent to which ethics are communicated and enforced by the parent organization. A sample item includes "Top management has let it be known in no uncertain terms that unethical behavior will not be tolerated." Scale items developed by Sujan et al. (1994) measured the two components of effort: working hard (WHRD) and working smart (WSMT). Specifically, the three "working hard" items that represent fortitude in a sales setting (e.g., "I work untiringly at selling a customer until I sell the product/service") and four "working smart" items that focus on planning and prioritizing in a sales setting (e.g., "I think about strategies I will fall back on if I encounter problems in a sales interaction") represented these two effort dimensions of sales-related work behavior. A short version of Herman et al.'s (2010) tolerance for ambiguity (TOLU) instrument captured the agents' comfort level when faced with potentially conflicting, complex, and ambiguous situations. A sample item includes "The sooner we all acquire similar values and ideals, the better" (reverse-coded). The job performance (JPERF) measure was that developed by Piercy, Cravens and Lane (2001). All items were measured using 7-point Likert-type scales. Reliability for each construct was assessed with Cronbach's alpha and each was found to be in the acceptable range (Anderson & Gerbing 1988). Discriminant validity was tested using the procedure suggested by Fornell and Larcker (1981). To test that the factors are distinct, a 95% confidence interval was constructed for each correlation and checked to determine whether the confidence interval included one (Fornell & Larcker, 1981; Yiping, 2003). Tests showed that none of the 95% confidence intervals of the factor correlations include one, indicating discriminant validity among the model's variables.

### **Test for Common Method Variance**

Since the agents provided responses for both independent and dependent variables, common method variance (CMB) could be a concern, even though Spector (2006) indicates that this problem is often overstated. To reduce the effect of CMB, items for the constructs in our study were intermingled

with many other constructs used in the model, following the procedure outlined by Ruiz-Palomino and Martinez-Cañas (2011). Moreover, a latent methods factor test proposed by Podsakoff et al. (2003) and widely used by researchers to account for the Common Method Bias (CMB) was conducted. Accordingly, all measures in the model were loaded on a single latent factor in addition to their respective factors and a structural model was run using AMOS 21. The pattern of results replicated with path coefficients similar to the model used for testing the hypotheses. This indicates that the pattern of relationships was not significantly affected by CMB (Sonenshein & Dholakia, 2012).

## RESULTS

### Correlation Analysis

A correlation analysis was conducted for all hypothesized constructs, and the results of this analysis are displayed in Table 1. Agents' perceptions of both facets of effort (working smart and hard) have a significant positive relationship with ethical climate and job performance. Further, tolerance for ambiguity shows a positive correlation with working hard. Of the three control variables, selling experience shows a negative relationship with working hard, and women are associated with working smart. Age does not appear to correlate with agents' perceptions of an ethical climate or any of the work-related behaviors investigated in this study.

Table 1. *Correlation Matrix*

	ETHCS	WHRD	WSMT	JPERF	TOLU	AGE	SELL
ETHCS Ethical Climate	(.92)						
WHRD Effort- Working Hard	<b>0.20**</b>	(.74)					
WSMT Effort- Working Smart	<b>0.34**</b>	<b>0.39**</b>	(.71)				
JPERF Job Performance	0.08	<b>0.23**</b>	<b>0.25**</b>	(.94)			
TOLU Tolerance for Ambiguity	-0.03	<b>0.16*</b>	0.10	0.01	(.68)		
AGE Age	-0.02	-0.14	-0.05	0.11	-0.06	-	
SELL Selling Experience	-0.01	<b>-0.15*</b>	-0.08	0.12	-0.06	0.49	-
SEX Gender ( female = 0, male = 1)	0.01	0.07	<b>-0.15*</b>	0.04	0.05	-0.12	-0.03
** and * respectively represent significance at the .01 and .05 levels (using a two-tailed test) Cronbach alpha coefficient is displayed in parentheses along the diagonal							

### Measurement Model

To assess the properties of the latent variables used in the model, a confirmatory factor analysis was conducted using AMOS 21. The fit indices for the measurement model were well within the acceptable range:  $\chi^2 = 347.95$ ,  $df = 199$ ,  $p < .01$ ; Root Mean Square Error of Approximation (RMSEA) = .061, CI90% = .050 to .071; Comparative Fit Index (CFI) = .90;

and Tucker-Lewis Index (TLI) = .91. Table 2 displays the standardized factor loadings for each item in the measurement model.

Table 2. *Standardized Loadings from the Measurement Model*

<b>Construct Name and Items</b>		<b>Standardized Loading</b>
<b>UNTIRING EFFORT, WORKING HARD (SUJAN ET AL., 1994)</b>		
WHRD1	I do not give up easily when I encounter a customer who is difficult to sale.	0.84
WHRD2	I work untiringly at selling to a customer until I sell the product/service.	0.81
WHRD3	I work many hours a week.	0.48
<b>WELL-DIRECTED EFFORT, WORKING SMART (SUJAN ET AL., 1994)</b>		
WSMT1	I think about strategies I will fall back on if I encounter problems in personal interactions.	0.63
WSMT2	I keep good records about my responsibilities.	0.66
WSMT3	Each week I make a plan for what I need to do.	0.65
WSMT4	I am careful to work on the highest priority task first.	0.59
<b>ETHICAL CLIMATE (SCHWEPKER, 2001)</b>		
ETHCS1	My company has a formal, written code of ethics.	0.68
ETHCS2	My company strictly enforces a code of ethics.	0.91
ETHCS3	My company has policies with regards to ethical behavior.	0.92
ETHCS4	My company strictly enforces policies regarding ethical behavior.	0.94
ETHCS5	Top management in my company has let it be known in no uncertain terms that unethical behaviors will not be tolerated.	0.80
<b>JOB PERFORMANCE (PIERCY ET AL., 2001)</b>		
JPERF1	Building effective relationships with customers.	0.75
JPERF2	Making effective presentations to customers.	0.75
JPERF3	Achieving sales targets and other business objectives.	0.82
JPERF4	Understanding our products and services.	0.73
JPERF5	Providing feedback to management.	0.63
JPERF6	Understanding customer needs and work processes.	0.77
JPERF7	Contributing to my sales unit's revenues.	0.81

### **Structural Model and Hypothesis Testing**

**Testing Main Effects.** Proposed hypotheses were tested using structural equation modeling (SEM) with AMOS 21. Respondents' age, selling experience, and gender were controlled, as these variables have previously been shown to have an effect on salesperson behavior (Flaherty & Pappas, 2002). The results of the structural model, shown in Figure 1, indicate a good

fit with the data, with the 90% confidence interval of the RMSEA below .08 and the other fit indexes above .90 (McDonald & Ho, 2002):  $\chi^2 = 392.24$ ,  $df = 192$ ,  $p < .01$ ; RMSEA = .069, CI90% = .061 to .079; CFI = .91; TLI = .90. Both hypotheses 1 and 2 are supported, with respective path coefficients of ( $\beta = .18$ ,  $t = 2.23$ ) and ( $\beta = .40$ ,  $t = 4.28$ ), indicating that an ethical climate is related to both working hard and working smart. Further, with regard to the relationships between working hard and smart with performance (hypotheses 4a and 4b, respectively), both hypotheses were also supported (H4a:  $\beta = .24$ ,  $t = 2.92$ ; H4b:  $\beta = .23$ ,  $t = 2.51$ ). Of the control variables, gender (female = 0, male = 1) was negatively related to working smart ( $\beta = -.18$ ,  $t = -2.17$ ) and positively related to job performance ( $\beta = .18$ ,  $t = 2.40$ ), indicating that women tend to work smarter than their male counterparts, but tend to self-report lower job performance. Path coefficients for each relationship are detailed in Table 3.

Figure 1. *Structural Model*

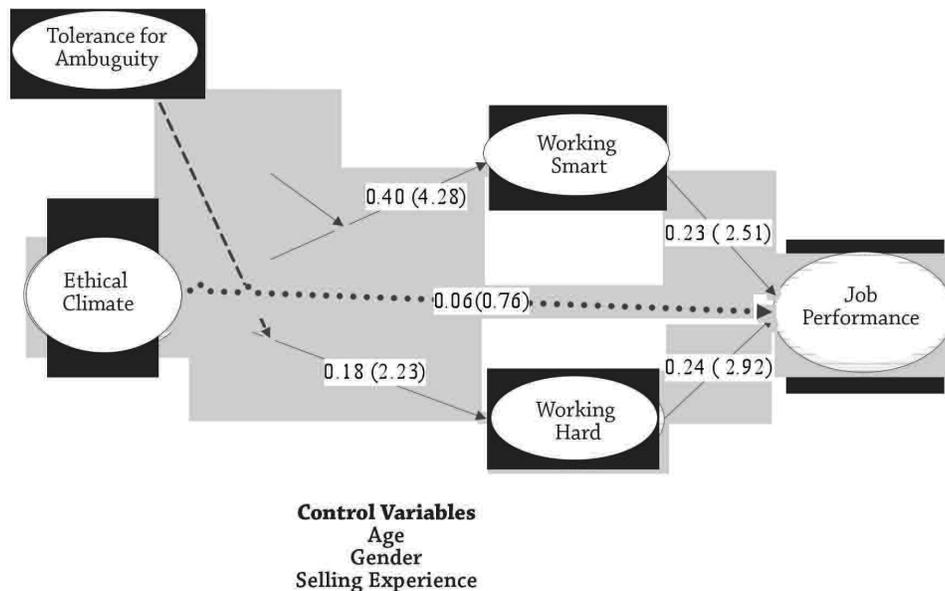


Table 3. *Path Coefficients from the Structural Model*

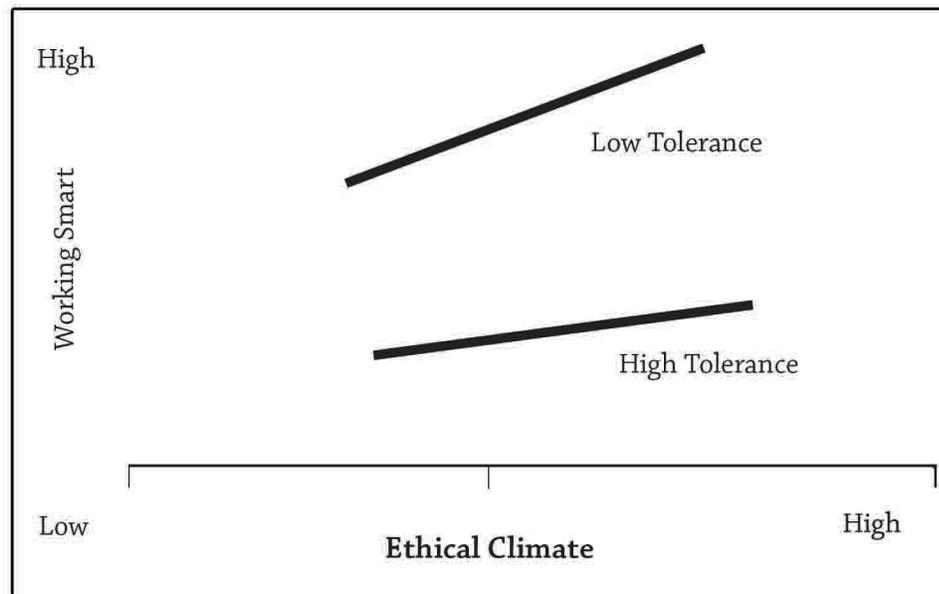
		Beta	t - value	Significant at alpha < 0.01
<b>Latent Constructs</b>				
Ethical Climate	Effort- working Smart	0.40	4.28	Yes
Ethical Climate	Effort- working Hard	0.18	2.23	Yes
Effort- working Hard	Job Performance	0.24	2.92	Yes
Effort- working Smart	Job Performance	0.23	2.51	Yes
<b>Control Variables</b>				
AGE	Effort- working Hard	-0.07	-0.80	No
AGE	Effort- working Smart	-0.04	-0.47	No
AGE	Job Performance	0.12	1.48	No
GENDER	Effort- working Hard	0.03	0.37	No
GENDER	Effort- working Smart	-0.18	-2.17	Yes
GENDER	Job Performance	0.18	2.40	Yes
Selling Experience	Effort- working Hard	-0.09	-0.96	No
Selling Experience	Effort- working Smart	-0.05	-0.53	No
Selling Experience	Job Performance	0.12	1.44	No

### Testing for Moderation

This study hypothesized that a salesperson's tolerance for uncertain situations would moderate the relationship between perceptions of ethical climate and working hard and smart. To test these hypotheses (H3a and H3b), we employed SEM and a multi-group analysis, following the procedure suggested by Hair et al. (2010). Tolerance for ambiguity (TOLU) was divided into three equal groups and the middle group was discarded. The first group, with TOLU values of 3.93 and below, was operationally defined as the low group. Observations with TOLU values above 4.28 were defined as the high group. The paths between ethical climate and working hard and smart were tested for moderation by restricting the paths between the constructs. The  $\chi^2$  result from the restricted-path model was compared to the model with unrestricted paths between ETHCS and WHRD as well as WSMT. The  $\chi^2$  difference between the two models ( $\Delta\chi^2 = 13.32$ ,  $\Delta df = 1$ ) was greater than Critical  $\chi^2 = 3.84$  ( $df = 1$ ,  $p < 0.05$ ) only for the path between ETHCS and WSMT, and not for ETHCS and WHRD ( $\Delta\chi^2 = 1.66$ ,  $\Delta df = 1$ ). Thus, the results supported only hypothesis H3b – the moderating effect of tolerance for ambiguity between the perception of

ethical climate and working smart. When one's tolerance for ambiguity enters the equation, the standardized path coefficient between ETHCS and WSMT remains significant and positive ( $\beta = 0.52$ ,  $t = 3.65$ ) for individuals with low tolerance for ambiguity, and insignificant for those with high tolerance for ambiguity ( $\beta = 0.18$ ,  $t = 0.95$ ), thus suggesting a significant moderating effect. Accordingly, as displayed in Figure 2, a sales agent's perception of a strong parent organization ethical climate (as opposed to a weak ethical climate) has a significant and positive effect on low tolerance individuals' well-directed (smart) efforts, but ethical climate does not appear to have the same effect for individuals with high tolerance for ambiguity.

Figure 2.



## DISCUSSION

The present study adds to the small stream of sales research that provides evidence of the relationship between company ethical climate and positive workplace outcomes (e.g., Jin et al., 2013; Mulki et al., 2009; Pelozo et al., 2009). By examining the central role of a parent organization's ethical climate in promoting positive work behaviors of empowered entrepreneurial agents, we extend this literature to account for distal

agency relationships. Whereas earlier studies have shown a strong positive relationship between ethical climate and employee attitudes (Mulki et al., 2009; DeConinck, 2010), results of the present study provide initial evidence that an ethical climate also provides the contextual base for salespeople to engage in both high levels of effort (working hard) and well-directed effort (working smart). Thus, these two desirable attributes which the literature has established as generally related to performance (a finding that we were able to replicate), relate to salespeople's perceptions of working for a highly ethical organization. In short, agents who perceive that the parent organization sets a high standard for ethical conduct tend to put forth greater and better-directed effort than those who perceive a context of lower ethical standards.

A strong ethical climate provides tacit behavioral codes of conduct which guide agent behavior (Kidwell & Valentine, 2009). This may be due, in part, to the positive feelings infused by an ethical organization that help to create a workplace in which employees are inclined to put forth their best efforts. Recent research demonstrates that a manager's commitment to ethical behavior results in motivating employees to greater effort by influencing task significance, autonomy, effort, and job performance (Piccolo et al., 2010). Results of the present study indicate that salespeople's perceptions of a strong and institutionalized ethical climate may, in a way, act as a substitute for such leadership in that one's perception of an ethical climate directly influences the degree of effort salespeople put into their work. Our results provide initial evidence to support extant literature (e.g., Krueger & Brazeal, 1994; Pearce, 1997) which suggests that the structures and support mechanisms that an organization has in place to uphold an ethical climate does, in fact, appear to influence the agents' approaches to work related tasks.

An additional contribution of this study is that we have provided evidence that a salesperson's tolerance for ambiguity plays an important role in moderating the relationship between a perceived ethical climate and on-the-job behavioral choices, such that the relationship between ethical climate and agent behavior is more salient for those individuals with a lower tolerance. One's tolerance for ambiguity will influence an agent's level of comfort with unfamiliar environments and the ability to cope with uncertainty. In comparison to other employees in the organization, salespeople are generally exposed to unfamiliar and novel situations more frequently and therefore must be adept at dealing with customers of diverse backgrounds and demands. In the case of a salesperson whose experience is limited to a rather homogenous customer population, exposure to diverse cultural norms may lead this individual to sense confusion and vulnerability.

For agents with low tolerance for ambiguity, unfamiliar situations may create a crisis of confidence and produce anxiety, particularly when faced with ethical dilemmas. Facing such situations may make it difficult to anticipate one's next step or to create a plan of action, and is likely to promote a need for feedback, guidance and support (Ashford & Cummings, 1985). In these instances, distal salespeople may not have immediate access to managerial support. Here, an ethical climate can act as a covenantal source for determining appropriate action and provide comfort for low tolerance agents, who may require guidance in their planning and subsequent behaviors (Vardi & Weitz, 2003). Our results suggest that agents with a low tolerance for ambiguity rely more strongly on the parent organization's ethical climate to guide their choices when it comes to effort. This suggests that low tolerance sales agents may depend more on their perceived psychological contract and covenantal expectations when attempting these important work-related tasks. Ethical climate acts as a guide and directional force for salespeople to make smarter decisions in ambiguous situations. Accordingly, this finding suggests that an ethical climate may enable low tolerance individuals to tackle situations that previous research (e.g., Kirton, 1981) suggests that they may typically avoid. This finding highlights the meaningfulness of an ethical code of conduct as a tool to positively enforce desirable behaviors among members of a distal sales force.

In comparison, agents with high tolerance for ambiguity are more likely to embrace unfamiliarity. Furnham and Ribchester (1995) state that a "person with high tolerance for ambiguity perceives ambiguous situations/stimuli as desirable, challenging, and interesting and neither denies nor distorts their complexity" (p. 179). Thus, the normative behaviors prescribed by an ethical code of conduct may not have as much influence on high tolerance salespeople's well-directed (smart) effort.

Of equal interest is the anticipated relationship that did not manifest as expected. Whereas we had posited that a salesperson with low tolerance for ambiguity would be more motivated to rely on the organization's ethical climate to encourage their decision-making regarding working hard and smart, our findings suggest that this characteristic only affects the direction of one's effort (working smart), and not its magnitude (working hard). These results are encouraging, because companies generally have motivational systems in place to promote effortful behavior, but little guidance exists as to how they may shape and direct appropriate efforts (i.e., to make smart decisions). Future research is needed to further examine the dynamics of these relationships.

### **Limitations and Future Research**

This research provides a unique outlook on the behavior of entrepreneurial sales agents, their perceptions of the parent organization, and their work-related behavior. Our sample provides us the opportunity to explore how each agent's perception of the parent organization's ethical climate differentially influences their approach to the sales job. Despite these strengths, this study has a number of limitations that are worth noting. As previously addressed, our findings are based on cross-sectional data collected at one point in time. Although we ran stringent tests following the procedure outlined by Podsakoff et al. (2003) and found no evidence that common method bias significantly impacted results, this nature of data collection limits our ability to discuss causal attributions between study variables, which might only be ascertained through future longitudinal research. To this end, changing perceptions over time have been shown to significantly alter employee outcomes (Weinberg & Lankau, 2011), and therefore research into changes in agent perceptions of the ethical climate over time is thus warranted.

Further, existence of several statistically equivalent models with equal fit using the same constructs cannot be ruled out while using structural equation modeling (MacCallum & Browne, 1993), and thus future researchers might consider testing the relationships posited herein against alternative theoretically-derived paths. Additionally, although the present study's sample of agent salespeople provided an excellent opportunity to examine our research questions, further research efforts with members of other functional areas of the firm and across multiple industries is required in order to generalize our results to the entire organization. Given these constraints, additional research building on the current study's results appears warranted.

Our findings support the importance of implementing and institutionalizing a strong ethical climate as an approach to bridging the distance between the principal and its distal agent sales force. Future cross-level research is needed to better understand the perceptions of ethical climate at various levels of an organization. Studies of other organizational and intra-individual characteristics that may help to facilitate and differentiate these perceptions may enable us to better understand the dynamic process through which an ethical climate affects distal employee behaviors. Of important note is that we found sufficient variance among the agents' perceptions of the organization's ethical climate to support our hypotheses. That this variance exists supports the notion that, in order to take full advantage of an ethical climate's positive influence on agent work behavior, an organization must develop a system to disseminate its ethical

message uniformly among these distal agents. Future work is needed to provide a suggested method for organizations to do so. In this vein, our initial analysis suggests that it may be worthwhile to recognize the distinction between having a formal, written code of ethics (which had the lowest standardized loading of all ethical climate items, at .68, as displayed in Table 2) and having and strictly enforcing an ethical standard, which appear to be stronger drivers of this construct. Interestingly, this distinction may suggest the importance of (informal) culture over formal, written policy with regard to establishing an ethical climate. Of final note, the moderating variable, tolerance for ambiguity, varies among cultures (Furnham & Ribchester, 1995), and as such, future research using responses from agents with different cultural and ethnic backgrounds can help in generalizing our findings. Culture also impacts an individual's interpretation of what may be considered 'ethically correct' behavior, and the impact of ethical climate on an agent's attitudes and behaviors may vary in other cultural settings. For these reasons, an extension of our study to an international context would allow us to better understand the boundary conditions of our model. It is our hope that this study inspires future research and discussion on the role of ethical climate in an entrepreneurial context.

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