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RESEARCH BRIEFS

HOW FIRMS RESPOND TO AN ETHICAL LAPSE: DOES GOING THE EXTRA MILE MATTER?

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RESEARCH QUESTIONS

A recently published article by Marshall Schminke (University of Central Florida), James Caldwell (Southeast Missouri State University), Maureen Ambrose (University of Central Florida), and Sean McMahon (University of Central Florida) provides a fresh perspective on ethical failures in organizations and initiates a line of research that will encourage new thinking about the impact of such lapses by organizations.

To date, most organizational research has focused on how to *prevent* ethical violations and their often-catastrophic effects. And, for good reason: the effects are expensive in every sense of the word. As the article notes, workplace fraud in all its forms—from an employee pocketing $10 at a coffee shop to the fast-talking executive pulling off a multi-million dollar embezzlement scheme—is estimated to cost upwards of three-quarters of a trillion dollars in the U.S. alone (ACFE, 2012). Thus, the focus on prevention in the workplace is obviously a very worthy goal.

Prevention is also important because ethical lapses can put a company's reputation, if not its existence, at risk. Yet, these lapses continue at an alarming rate and are becoming more clever and complex all the time. If such violations are common—perhaps even inevitable—then another important managerial issue is how to deal with them once they occur. Specifically, there is very little work on the aftereffects of an ethical breech on employee morale and attitudes—especially those who have witnessed such acts. Given that nearly half of all U.S. workers report having personally witnessed violations of their firms' ethical policies, it is a key issue that deserves attention. By focusing on the topic, Schminke and his colleagues provide insight into how firms and well-intentioned people can manage the recovery process to regain employee trust after an ethical lapse.

Schminke and his colleagues used the service recovery literature in marketing as a possible platform for understanding recovery from ethical lapses. For example, they looked at how firms fix customer problems, recover their loyalty, and keep their business, and asked whether similar strategies could help regain employee trust following an ethical lapse.

The service recovery literature also shed light on what is often called the recovery paradox. This occurs when, say, a passenger arriving in London finds that her luggage is missing. If the airline manages to pull out all the stops and find the bags in short order, the customer may end up feeling even greater loyalty to the firm and writing the airline President to describe how well she was treated. Schminke and his colleagues suggest an *ethical recovery paradox* may exist if firms go the extra mile to deal with an ethical violation in a highly effective way. Such actions could, therefore, restore and enhance employee confidence and support. This is a provocative hypothesis with many important managerial implications—one that was tested in this research.

STUDY DESIGN, METHODS, AND KEY FINDINGS

To examine these intriguing issues, Schminke and his colleagues conducted two studies: a lab-based study where they could exert careful control, and a large-scale field study of employee reactions to ethical lapses.

Study 1

Methods. In the lab study, participants read a scenario where they were asked to imagine themselves as a restaurant employee. They were assigned to one of four experimental conditions. A *control* condition described the basic setting and jobs, a shared tip jar, and the company's ethics code (no ethical failure). The other three conditions all described an ethical failure they had observed: (1) a new manager stealing tips from the jar three times; (2) a violation that they reported to the manager; and (3) varying levels of action by the general manager [*negative*/dismissive;

somewhat positive (more engaged/proactive); or *highly positive* (very concerned, restored loss to victims, new procedure for future]. After reading their version of the scenario, participants provided their recovery reactions at the individual (satisfaction with company), group/relational (firm concern for well-being), and company level (the firm practices good business values/ethics).

Key findings. The seriousness shown by management toward the ethical violation and the degree of effort initiated affected "recovery" reactions to witnessing a violation. Compared to those who read the no ethical failure scenario, the poor response condition produced very low personal and group/relational reactions to the violation. A somewhat positive effort to make things right did improve reactions to violations.

The most interesting finding, however, was that a highly positive effort to make things right produced high recovery reactions, especially for personal and group/relational measures. In fact, those reactions were more positive than for those who had not seen any violations. This rebound or *recovery paradox* suggests that it's not only possible to make things right, but may be even better than had there been no ethics lapse in the first place. Going that extra mile not only mitigated the damage caused by the violation, but when the company did a careful job dealing with the violation, a recovery paradox was observed for two of the three measures. The third measure, an assessment of the quality of the firm's ethical practices, also received high scores when management provided a well-executed response. But, it did not exceed the rating for the "no ethical failure" condition; there, the paradox was not observed.

Study 2

Methods. Schminke and his colleagues also conducted a large survey (n ~ 25,000) that focused on the reaction of real employees to unethical behavior in their organizations. Nearly 4,500 people in this sample reported witnessing ethical violations such as lying to employees or customers, bribery, sexual harassment, and falsifying financial information. Further, about half of this group had both witnessed the violation and reported it to management. The reactions of this latter group of employees to how their company dealt with the reported misconduct served as a way to categorize employees' views of the ethical recovery efforts of the firm. Several base conditions (no ethical failure; ethical failure witnessed but not reported) were compared with five other conditions that varied in terms of employee satisfaction with how the violation was handled (from very dissatisfied with company response to very satisfied). Again, three different levels of reactions were measured (individual, group/relational, company).

Key findings. Among employees who actually witnessed an ethical violation, some very clear effects emerged that added realism to the lab study. First, the perceived quality of organizational response to the violation was again related to ratings of organizational satisfaction, perceived group support, and company-level ethicality. Second, Schminke and his colleagues again found an ethical recovery paradox. A high-quality effort to deal with the ethical problem would not only recover ground, but might even bind an employee more closely to a firm. This was the case across the three levels of employee reactions. When employees witnessed an ethical lapse, stuck their necks out to report it, and the firm moved to deal with it in a significant way, employees were impressed. Indeed, their organizational evaluations were even higher than if no ethical failure was witnessed at all!

CONCLUSIONS AND IMPLICATIONS

This study presents some provocative findings that could be the impetus for a new and productive line of research in business ethics. Much good work has been done on how to prevent poor ethical practices in organizations (e.g., training, codes of conduct, etc.). But as Schminke and his colleagues have shown, we need to better understand what happens *after* an ethical failure.

A key takeaway from this study is that there's plenty a firm can do after an ethical failure. Managers can and should take overt and deliberate steps to ensure the problem is dealt with rather than simply recognizing that an ethical failure occurred and hoping it will run its course. This approach can restore employee faith, and if done well, can build a stronger bond with the firm. In short, it can result in an ethical recovery paradox.

Like many good studies, this one raises new and interesting questions. For example, would the results extend to organization members who do not directly witness the violation, but merely hear about it? Put another way, does just hearing about an ethical lapse and a positive response create the recovery paradox or do employees have to personally witness it? Another interesting question is, what makes for a high-quality recovery effort? What features are seen as dealing directly with the issue rather than patching over, or worse yet, ignoring problems? Likewise, how many chances does a firm get (and in what timeframe) to go the extra mile to make things right and realize an ethical recovery paradox? I look forward to reading the answers to questions inspired by this research.

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