Prophets vs. Profits: How Market Competition Influences Leaders' Disciplining Behavior Towards Moral Transgressions

Abstract

We investigate how market competition influences the way organizational leaders discipline moral transgressions of employees. In a cross-sectional study among organizational leaders at various hierarchical levels (Study 1), we find that strong market competition is related to an instrumental decision frame (business practices being perceived as focused on serving the organization's interest). This decision frame explains why strong market competition is related to leaders' perceptions of the evaluation of wrongdoing in terms of instrumental rather than moral concerns. In two subsequent experiments (Study 2 and 3), we find that high (relative to low) market competition makes leaders' disciplining of moral transgressions contingent upon the instrumentality of the transgression to the organization. We find that the same transgression is punished less severely when it resulted in profit for the organization than when it resulted in loss. This research is among the first to identify conditions that determine the disciplinary responses of organization leaders to employees' moral transgressions, and it feeds the debate on whether market competition – a fundamental characteristic of capitalist economies – promotes the display of moral or immoral behavior within organizations.

Keywords: market competition, moral transgression, unethical behavior, discipline, disciplining behavior, punishment, ethical decision-making

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Market competition is a fundamental principle of capitalist economies (Blaug, 2001), making it a ubiquitous aspect of the context in which organizations and their leaders operate. To obtain competitive advantage, organizations rely strongly on leadership for at least two reasons (Yukl, 2008). First, leaders are responsible for making sense of the environment, identifying threats and opportunities, and for making strategic decisions to positively influence firm performance (Bourgeois & Eisenhardt, 1988; Thomas, Clark, & Gioia, 1993). Second, leaders can stimulate subordinates to contribute to organizational performance, as is shown by a variety of research programs devoted to leadership styles and actions such as transformational leadership (e.g., Lowe, Kroeck, & Sivasubramaniam, 1996; Piccolo & Colquitt, 2006), servant leadership (e.g., Van Dierendonck, 2011), leader-member exchange (e.g., Gerstner & Day, 1997), and leader reward and punishment behaviors (e.g., Podsakoff, Bommer, Podsakoff, & MacKenzie, 2006).

In addition to motivating followers to maintain or increase performance, leaders also have moral obligations that include stimulating moral behavior among employees and disciplining employees who transgress moral norms (Brown & Treviño, 2006; Chonko & Hunt, 1985; Van Houwelingen, Van Dijke, & De Cremer, 2014). Disciplining moral transgressions may not directly contribute to organizational performance, yet it helps establish an ethical climate and prevents future occurrences of unethical practice (Brown & Trevino, 2006; Chonko & Hunt, 1985; Mayer, Kuenzi, & Greenbaum, 2010). Unfortunately, reality provides numerous instances of leaders failing to discipline employees who engage in moral transgressions, especially in organizations operating in strongly competitive markets. For example, the UK newspaper *News of the World* illegally hacked the telephones of celebrities, relatives of dead soldiers, and crime victims to run exclusive news or scoops. Another example is the illegal rigging of benchmark

interest rates (Libor and Eurobor) by major banks like UBS, Barclays, and RBS to boost their trade profits and creditworthiness. How can such widespread and longstanding immoral practices persist without any disciplinary reactions within a company? The extant literature offers only few insights on the factors that predict when and why leaders will discipline moral transgressions.

In the present paper, we argue that an essential element of the external environment in which organizations and its leaders operate (i.e. market competition), may explain why many leaders fail to discipline moral transgressions committed by employees. More specifically, we argue that when strong market competition is present, leaders will be stimulated to view employees' moral transgressions purely from the perspective of whether the transgression is instrumental to the company. We build our argument on the two-stage signaling-processing model developed by Tenbrunsel and Messick (1999). Rather than focusing on individual differences between leaders in moral focus, this model proposes that the context influences the type of frame (i.e., instrumental or moral) through which an individual perceives the decision (i.e., signaling stage). The type of decision frame that is evoked subsequently determines the decision-making process and outcome (i.e., processing stage). We conducted three studies where we applied this model to leaders' use of discipline (in response to employees' moral transgressions) as a function of market competition.

With this research we aim to address several gaps in the literature. First, in spite of substantial academic interest in leader discipline, the overwhelming majority of studies examined consequences rather than determinants of disciplinary action (see Podsakoff et al., 2006). Furthermore, almost all of these studies focused on the disciplining of poorly performing employees (e.g., low productivity) and overlooked the disciplining of moral norm transgressions. Second, although several studies have examined leadership in competitive environments, they did not consider its effects on moral decision-making but focused primarily on strategic decision-

making linked to the economic performance of organizations (e.g., Baum & Wally, 2003; Eisenhardt, 1989; Judge & Miller, 1991; Khatri & Ng, 2000; Waldman, Ramirez, House, & Puranam, 2001). This lack of attention to the moral decision-making of leaders is surprising given that market competition has been strongly linked, both anecdotally and theoretically, to immoral conduct in organizations (e.g., Sethi & Sama, 1998; Shleifer, 2004). To date, empirical studies that have examined the effects of market competition on ethical decision-making remain very limited and reveal conflicting findings (Dubinsky & Ingram, 1984; Falk & Szech, 2013; Nill, Schibrowsky, & Peltier, 2004; Verbeke, Ouwerkerk, & Peelen, 1996). In contrast to these studies, we focus exclusively on organizational leaders, who are hierarchically and psychologically closer to the organization's goals (Kaiser, Hogan, & Craig, 2008; Overbeck & Park, 2006) and therefore potentially more susceptible to contextual variables that challenge these goals, like market competition. In this way, we hope to resolve some of the ambiguity that has resulted from prior works on how market competition shapes ethical decision-making.

Why market competition matters to leaders

Competition can be defined as different parties pursuing scarce and contested resources, such that one party's goal attainment makes the other party's goal attainment either impossible or less likely (Deutsch, 1949). Competition can either have either a zero-sum form (where one party's gain is matched by a loss for the competing parties) or a nonzero-sum form (where one party's gain does not necessarily result in loss but perhaps only in less gains for the others). In both forms, the parties have at least some conflicting interests (Hunt, 2000).

Competition can operate at different levels of analysis. It has been studied and operationalized not only as an interpersonal (or intra-organizational) variable (for a meta-analysis, see Stanne, Johnson, & Johnson, 1999), but also as a phenomenon that operates between organizations, i.e., market competition (Blaug, 2001; Nickell, 2006). Although the concepts of

interpersonal competition and market competition share the basic assumption that agents try to be better off than each other, we argue that there are some important differences between them that make market competition especially relevant as a predictor of leader behavior.

The relation between *interpersonal* competition and organizational behavior has been studied extensively. An illustration of a competitive intra-organizational environment is Enron, which created strong competition among its employees by giving top performers performance-based bonuses and by using appraisal systems whereby poor performers were quickly expelled (Kulik, O'Fallon, & Salimath, 2008). In such environments, competition is highly salient to the members of organization because it is directly linked to self-relevant outcomes (e.g., salary). As a consequence, employees will be motivated to put more effort into their work (Schwepker & Ingram, 1994), but they may also engage in immoral acts in an effort to outperform their coworkers. Several studies provide empirical evidence for a negative effect of intra-organizational competition on moral behavior. For instance, Robertson and Rymon (2001) showed that purchasing agents who face high pressure to perform are more likely to use deception. Hegarty and Sims (1978) found that participants in a marketing experiment were more likely to accept kickbacks (i.e., bribery) when faced with more competition.

Just as intra-organizational competition may be particularly relevant for employees because of the direct link to self-relevant outcomes, market competition may be especially relevant to organizational leaders because of their positional closeness to the organization's goals and strategy. In the strategic management literature, leaders are ascribed an important role in assessing the external environment, in making strategic choices to obtain competitive advantages, and in creating a viable future for the organization (e.g., Hambrick & Mason, 1984; Ireland & Hitt, 1999). In fact, research has shown that the decision-making of leaders particularly matters to organizational performance when the external environment is highly unpredictable (*dynamism* or

turbulence: Baum & Wally, 2003), is characterized by quick changes in demand, competition, and technology (*high velocity*: Judge & Miller, 1991), or has rapidly intensifying levels of competition and diminished periods of competitive advantage (*hypercompetition*: Bogner & Barr, 2000). For instance, faster and more intuitive decision-making of leaders is positively related to firm performance primarily in dynamic or high-velocity environments (Baum & Wally, 2003; Eisenhardt, 1989; Judge & Miller, 1991; Khatri & Ng, 2000). As another example, charismatic leadership as displayed by top level leaders is related to firm performance particularly when environmental uncertainty is perceived to be high (Waldman et al., 2001).

When market competition is high, rather than low, this represents higher levels of uncertainty (Daft, Sormunen & Park, 1988) and threats to the attainment of organizational goals, which both are cues that draw the attention of leaders (Nadkarni & Barr, 2008). Indeed, given that leaders are the decision makers in organizations, ultimately responsible for their organization's success and survival (Hogan & Kaiser, 2005), they have, more than regular employees, a strong focus on achieving the goals of the organization (Overbeck & Park, 2006; Wiesenfeld, Brockner, & Thibault, 2000; Horton, Mclelland, & Griffin, 2014). In highly competitive markets, this focus may be further strengthened by the incentives that organizations create for leaders, such as compensation schemes that are related to outperforming competing firms (Aggarwal & Samwick, 1999; Karuna, 2007).

Several papers have argued that strong market competition could therefore also pressure and motivate firms to engage in fraud, corruption, and other unethical conduct (e.g., Ashforth & Anand, 2003; Sethi & Sama, 1998; Zahra, Priem, & Rasheed, 2005; Baucus & Near, 1991). However, most of the evidence for this claim is anecdotal rather than empirical. In addition, the few studies that have examined if and how market competition may influence the moral conduct of individual organizational members, have yielded mixed results. Nill et al. (2004) found for

example that students who had to imagine making a decision about building a factory that was potentially hazardous to the environment made more immoral decisions in a strong market competition situation than in weaker one. In contrast, two studies that looked at the effect of market competition on ethical decision-making by salespersons found no relation between the intensity of the competition and the experience of ethical conflict (Dubinsky & Ingram, 1984), or between competition intensity and the perception of whether transgressions are moral in nature or not (Verbeke et al, 1996). Schwepker (1999) even observed a negative relation between the intensity of market competition and salespersons' intent to behave immorally in a number of scenarios.

However, given that market competition provides a highly demanding and salient context particularly for the decision-making of leaders (Khandwalla, 1973; Nadkarni & Barr, 2008; Nickell, 2006), it may be germane to focus on organizational leaders to understand how market competition influences moral decision-making within organizations. Unfortunately, no prior research has looked at the role of leaders in this context.

How market competition affects leaders' decision-making

We propose that market competition affects the lens through which leaders perceive a situation and subsequently the way leaders make decisions. We build our argument upon Tenbrunsel & Messick's (1999) two-stage signaling-processing model that they developed to study the effects of contexts on ethical decision-making. In the first stage of this model (the signaling stage), the context influences how decision makers construe the situation, i.e., which decision frame they believe is appropriate. A salient context may evoke a moral, instrumental (i.e., business oriented), legal, or environmental decision frame. Subsequently, the evoked decision frame will drive the decision or behavior of the decision makers (i.e., the processing stage). If a moral decision frame is evoked at the signaling stage, this results in moral decision-

making at the processing stage; meaning, that the decision makers are aware of the moral implications of the situation they are in, and that moral considerations are taken into account when making a decision (Jones, 1991; Tenbrunsel & Smith-Crowe, 2008).

When leaders react to employees' moral transgressions using a moral frame, it implies that leaders base their response on considerations like the moral intensity of the act (Vitell et al., 2003) and the extent to which the act was deliberate (Cushman, 2008). In contrast, when the context activates an instrumental decision frame, decision makers are likely to view their decisions in terms of instrumental concerns and engage in rational economically oriented reasoning: in terms of the costs and benefits for the organization. Hence, an instrumental decision frame leads to *a*moral decision-making (Jones, 1991; Tenbrunsel & Smith-Crowe, 2008). As a result, leaders may also base their response to the immoral acts of employees on instrumental concerns (i.e., whether the act results either in some benefit or loss to the company, Tenbrunsel & Smith-Crowe, 2008) rather than on moral considerations.

We hypothesize that strong market competition activates an instrumental decision-making frame in leaders at the expense of a moral frame, and this affects how leaders perceive the evaluation of an employee's moral transgression (i.e., the signaling stage). There are several reasons supporting this hypothesis. First of all, research has shown that the salience of social cues is determined by goal relevance and uncertainty level (Daft et al., 1988; Fiske & Taylor, 1991; Garg, Walters, & Priem, 2003). Given that a strongly competitive environment threatens organizational performance (Sethi & Sama, 1998; Baum & Singh, 1996; Hannan & Carroll, 1992) and thus is highly goal-relevant to leaders (Thomas et al., 1993; Yukl, 2008), such an environment becomes a highly salient social cue that draws the attention of decision makers to the demands of the environment (Nadkarni & Barr, 2008). Therefore, strong market competition signals to leaders that they should consider the instrumentality of their decisions towards the

economic performance of their organization. In contrasts, in stable environments (i.e., low market competition) where organizational performance is not under threat and the environment is relatively predictable (Bogner & Barr, 2000), market competition will be less salient and too weak a signal to evoke an instrumental decision frame.

Research on goal setting also explains how competition may activate an instrumental rather than a moral decision frame among organizational leaders. This literature has shown that organizations and leaders who face more competition are more inclined to set higher economic performance goals (Brown, Cron & Slocum, 1998; Locke & Latham, 1990), which in turn may instigate leaders to

all kinds of decisions, including employee evaluations, by starting from these goals. As a result, setting high economic performance goals may lead decision makers to adopt a decision frame that is based on instrumental, outcome-related concerns rather than on moral concerns (Schweitzer, Ordonez, & Douma, 2004; Barsky, 2008).

Research on social dilemmas sheds further light on how competition may more directly activate an instrumental rather than a moral decision frame. Scholars have observed that people with a strong focus on competing are more likely to perceive their decisions in instrumental, efficacy terms (winning-losing) and less in moral terms (Liebrand, Jansen, Rijken & Suhre, 1986; Beggan, Messick, & Allison, 1988). In fact, simply naming a given mixed-motive dilemma, either the “Wall Street Game” or the “Community Game”, has been found to affect the extent to which participants believe that the social norm is to engage either in more rational economic thinking (i.e., maximize own outcomes) or more moral thinking (i.e., maximize communal outcomes), respectively (Liberman, Samuels, & Ross, 2004). Therefore, mere linguistic cues associated with competition could thus already provide signals to leaders in organizations that adopting an instrumental frame is appropriate (Messick, 1999; Pillutla & Chen, 1999). When

market competition is high, this will be reflected in the economic language of the organization. Talks of "cut-throat competition", "market share", "budget cuts", and "targets" within the organization could therefore make it more likely that instrumental rather than moral concerns are activated (cf. Ferraro, Pfeffer, & Sutton, 2005; Kay & Ross, 2003).

Based on the above discussion, we argue that in instances of high (vs. low) market competition, leaders will more likely perceive instrumental concerns to be important within their organization. As a result, leaders in highly competitive markets will also be more likely to view the evaluation of wrongdoings as an instrumental decision. This argument leads to Hypotheses 1 and 2.

Strong (vs. weak) market competition makes leaders perceive organizational practices as more instrumental (Hypothesis 1).

Because strong (vs. weak) market competition makes leaders perceive organizational practices as being more instrumental, the evaluation of employee transgressions will also be more likely viewed from an instrumental, rather than moral, frame (Hypothesis 2).

If strong competition leads to the adoption of an instrumental decision-making frame (rather than a moral one), it follows from the two-stage signaling-processing model (Tenbrunsel & Messick, 1999) that, as a second step, competition will also determine on what grounds actual decisions will be made (i.e., the processing stage). Indeed, studies have shown that adopting an instrumental decision frame results in more instrumental decision-making. For instance, when people adopt an instrumental frame, their compliance with regulations depends on the likelihood that noncompliance results in a sanction (Tenbrunsel & Messick, 1999). Other research shows that in social dilemmas where the rational choice is to favor one's own interest over the collective interest, adopting an instrumental frame leads to more self-interested decisions (Liberman et al., 2004; Kay & Ross, 2003; Tenbrunsel & Messick, 1999). Finally, instrumental frames have been

linked with more immoral intentions and behaviors, such as lying and cheating, in instances when these results in a higher pay-off (Kouchaki, Smith-Crowe, Brief, & Sousa 2013).

With market competition evoking an instrumental decision frame, it is less likely that moral considerations play a role in leaders' responses to employees' moral transgressions. Instead, leaders will more likely base their decision on what they feel is the appropriate *instrumental* response to the follower's action. Specifically, leaders will base their decision on cost-benefit calculations, i.e., the instrumentality of the moral transgression for the organization: the more profitable the transgression is for the company, the less likely it will be for leaders to take disciplinary actions against such conduct. This argument leads to the following hypothesis:

Leaders who face strong (vs. weak) market competition are more likely to discipline moral transgressions based on their instrumental value (i.e., profitability) for the organization (Hypothesis 3).

Overview of Studies

We conducted three studies to test our hypotheses. Study 1 was a cross-sectional survey conducted among leaders functioning at various hierarchical levels (i.e., line managers, middle managers, and senior managers) in a variety of organizations. In this study, we tested Hypotheses 1 and 2 (referring to the signaling phase of the two-stage signaling-processing model of Tenbrunsel & Messick, 1999). We tested whether strong (vs. weak) market competition is related to leaders' perceptions that organizational practices are focused solely on furthering the organization's interest, i.e., focused on instrumentality concerns. We also tested if strong (vs. weak) market competition is related to the evaluation of moral transgressions in instrumental rather than moral terms, via the mediating mechanism of general instrumentality perceptions.

Studies 2 and 3 were designed to test Hypothesis 3 (i.e., the processing stage of the model). Specifically, these studies tested whether market competition also determines whether

leaders discipline specific moral transgressions based on instrumental considerations (i.e., the extent to which the transgression furthers the organization's interest). We varied whether an employee's moral transgression resulted in loss or gain for the company and tested whether high (vs. low) market competition makes leaders discipline this moral transgression more severely when it results in a loss, rather than a gain, for the company. Testing the logical consequence of the processing stage of the model required taking a moderator approach in Studies 2 and 3 (Spencer, Zanna, & Fong, 2005) instead of following a mediator approach as we did in Study 1. Studies 2 and 3 used experimental designs to assess whether market competition causally affects leaders' disciplinary responses to employees' moral transgressions. The participants were leaders working in various organizations (Study 2) and business students (Study 3).

Study 1

Method

We invited 893 Dutch members of a research panel who worked for at least 12 hours per week and who had a supervisor (i.e., not self-employed). Of these, 673 completed the questionnaire (a response rate of 75%). Based on the selection criteria applied by the panel company when inviting panel members, the majority of the respondents were expected to have a supervisory role in their respective organizations. To increase our confidence that respondents had a supervisory role, we added a question that assessed whether they supervised other organization members. In total, 602 respondents indicated they had a supervisory role and they were then kept for further analyses. Analyses that included all 673 respondents revealed results that were essentially the same as those presented below.

Among the respondents, 63% were male, were, on average, 42.92 years of age (*SD* = 10.83); had worked, on average, for 11.80 years with their current organization (*SD* = 10.23); and were in their current position for 6.18 years (*SD* = 6.62). As for their educational background,

14% had only secondary education (high school), 19% vocational education, 38% had a bachelor's degree, and 29% a master's degree. As for their power position in the organization, 64% of the respondents supervised between 1 and 10 employees, 17% supervised 11 to 20 employees, 8% supervised 21 to 30 employees, 3% supervised 31 to 40 employees, 3% supervised 41 to 50 employees, and 5% supervised more than 50 employees.

Measures. Unless noted otherwise, all items were answered on 5-point Likert scales (1 = *completely disagree* to 5 = *completely agree*). We measured perceived *market competition* with four items based on the work of Schwepker and Ingram (1994) and Pecotich, Hattie, and Low (1999): "In our industry there are many other firms offering the same products or services", "Firms in our industry compete intensely to hold or increase their market share", "In our industry there is not much competition (reverse coded)", and "Appropriate terms used to describe competition in our industry are 'warlike', 'bitter', or 'cut-throat'."

We measured the perceived instrumentality of organizational practices *(instrumentality)* using five items from Victor and Cullen's (1988) instrumentality scale. Example items are "There is no room for one's own personal morals or ethics in this company" and "People are expected to do anything to further the company's interests, regardless of the consequences."[1, 2]

We assessed *standards for evaluating moral transgressions* with two dichotomous items based on Tenbrunsel and Messick's (1999) measure of ethical vs. business-driven decision frames. Respondents were asked, "On what grounds is employee wrongdoing evaluated in your organization?" For the first item, respondents indicated whether this was done (1) on moral or (2) on economic grounds. For the second item, respondents indicated whether this was done based on (1) the consequences for the company or on (2) the ethical aspects of the act.

[Insert Table 1 about here]

Results

Correlations, Cronbach's alpha coefficients, means, and standard deviations for all measures are displayed in Table 1.

Measurement model. Before testing our hypotheses, we conducted Confirmatory Factor Analyses (CFAs). Specifically, we tested our measurement model at the item level to determine whether items adequately indicate their intended underlying constructs (Anderson & Gerbing, 1988; Bandalos & Finney, 2001). The initial measurement model had three latent factors (i.e., market competition, instrumentality, and standards for evaluating moral transgressions) and 11 indicators. We estimated a model with three latent variables as well as a one-factor model in which all items loaded onto one factor. We also fitted a four-factor model that included the three latent variables together with a common-method factor, which was uncorrelated to the theoretically derived factors (cf. Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). To judge the goodness of fit of the measurement model, we relied on the χ^2/df index (Mulaik et al., 1989), the root-mean-square error of approximation (*RMSEA*, Steiger, 1990), and on the comparative fit index (*CFI*, Bentler, 1990).

The three-factor model (market competition, instrumentality, and standards for evaluating moral transgressions) fitted the data quite well ($\chi^2(41)/df = 3.70$, *RMSEA* = .07 (90% CI = .06–.08), *CFI* = .93), and all items loaded significantly upon their respective factors ($p < .01$). The fit of the one-factor model was clearly insufficient ($\chi^2(44)/df = 12.74$, *RMSEA* = .14 (90% CI = .13–.15), *CFI* = .65). The four-factor model (adding a common-method factor to the three-factor model) had a slightly better fit to the data than the three-factor model ($\chi^2(32)/df = 2.92$, *RMSEA* = .06 (90% CI = .05 – .07), *CFI* = .95). However, none of the items loaded significantly upon the method factor. Thus, overall, there is little reason to believe that common-method variance could explain correlations between scales.

Hypotheses testing. We tested the relationship between market competition and instrumentality with ordinary least squares (OLS) regression. We also tested the relationship between market competition and standards for evaluating moral transgressions with binary logistic regression. Finally, we tested whether the relationship between market competition and standards for evaluating moral transgressions was mediated by instrumentality with indirect effects analyses, using the PROCESS macro (Hayes, 2012).

Instrumentality. Consistent with Hypothesis 1, OLS regression revealed that stronger market competition was associated with higher perceived instrumentality of organizational practices ($\beta = .27$, $t(601) = 6.85$, $p < .001$.)

Standards for evaluating moral transgressions. A logistic regression analysis on the question whether economic (coded 0) or moral grounds (coded 1) are considered more important as standards for evaluating wrongdoing revealed an effect of market competition ($b = -.97$, $SE = .11$, *Wald's* χ^2 $(1, N = 602) = 76.62$, $p < .001$.) As predicted, in more competitive markets, leaders considered economic grounds in the evaluation of wrongdoings as more important than moral grounds, whereas in less competitive markets, moral grounds are seen as more important than economic standards.

To test whether the relationship between market competition and the standards for evaluating moral transgressions is mediated by instrumentality, we added instrumentality as a predictor in the logistic regression. The analysis revealed a significant effect of instrumentality ($b = -1.26$, $SE = .18$, Wald's χ^2 $(1, N = 602) = 54.72$, $p < .001$) and a reduced effect of market competition ($b = -.86$, $SE = .12$, Wald's χ^2 $(1, N = 602) = 48.86$, $p < .001$.) We then performed a bootstrap procedure, advocated by Edwards and Lambert (2007) and Preacher, Rucker, and Hayes (2007), to assess the significance of the indirect relationship. We used the PROCESS

macro (Model 4) (Hayes, 2012) with 5000 bootstrap resamples. We assigned market competition as the independent variable, instrumentality as mediating variable, and standards for evaluating moral transgressions as the dependent variable. The results showed that the indirect effect of market competition via instrumentality was -.22, and the confidence interval for this indirect effect did not include zero (95% CI -.31, -.14.)

We performed a binary logistic regression on the extent to which the consequences of wrongdoing vs. ethical considerations were considered more prevalent in the organizations' evaluation of wrongdoing. This regression revealed the predicted effect of competition (b = -.41, SE = .09, *Wald's* χ^2 (1, N = 602) = 8.12, p = .01.) Thus, in competitive markets, leaders view the consequences of wrongdoings as more important than ethical considerations. In less competitive markets, leaders view ethical considerations as more important than the consequences of wrongdoings.

To test our mediation hypothesis that market competition affected evaluations of moral transgressions through instrumentality, we first repeated the logistic regression analysis with instrumentality as an additional predictor. The analysis revealed that the effect of instrumentality was significant (b = - .98, SE = .16, Wald's χ^2 (1, N = 602) = 35.91, p < .001.) The effect of market competition was reduced in this analysis (b = - .28, SE = .10, Wald's χ^2 (1, N = 602) = 7.85, p = .01.) We then conducted the same bootstrapping procedure described above with 5000 bootstrap samples. We assigned market competition as the independent variable, instrumentality as the mediating variable, and evaluation standards (consequences vs. ethics) as the dependent variable. This analysis showed that the indirect effect was -.17, and the confidence interval for instrumentality did not include zero (95% CI -.17, -.10). This indicates an indirect effect of market competition on evaluation standards through instrumentality.[3]

Summary of findings

The results of Study 1 support Hypotheses 1 and 2 by showing that strong (vs. weak) market competition is related to leader's perceptions of organizational practices as being instrumental (i.e., focused on furthering the organization's interests). As a consequence, leaders also perceive the evaluation of transgressions as more instrumentally and less morally driven. These results therefore show that the signaling stage of the two-stage signaling-processing model (Tenbrunsel & Messick, 1999) extends to the evaluation of moral transgressions in either instrumental or moral terms.

Study 2

Study 1 tested the signaling stage of the two-stage signaling-processing model (Tenbrunsel & Messick, 1999) applied to the evaluation of moral transgressions (i.e., in instrumental or moral terms). The aim of Study 2 was to test the processing function of this model as applied to leaders' actual disciplinary responses to moral transgressions. In Study 2, we tested whether strong (vs. weak) market competition makes leaders discipline moral transgressions more contingently upon whether these transgressions result in gains or losses for the company. Observing this dependency would be a direct evidence for the operation of an instrumentality frame of reference, as a result of market competition, in the decision of organizational leaders to discipline transgressors of moral norms.

In Study 2, we provided leaders from various organizations with a description of a specific moral transgression and asked them to what extent they would discipline the transgressing employee. To be able to make causal inferences, we orthogonally manipulated market competition (strong vs. weak) and instrumentality of the moral transgression (whether it resulted in loss vs. gain for the company).

The experimental design also allowed experimental control over possible confounding factors, such as individual differences in a priori levels of decision-making frames. As noted, the

two-stage signaling-processing model focuses on the effects of contextual, rather than individual difference (e.g., personality based) factors on adopted frames and subsequent behavioral responses. However, it is important to show that the effects of market competition as a contextual factor exist when controlling for the role of individual difference factors. Random assignment to conditions ensures that the independent variables (i.e., market competition and instrumentality of the transgression) cannot be correlated with such confounding variables. Experimental control is therefore a much-preferred way of controlling for possible confounding factors than statistical control. The latter leads to results that are often ambiguous and difficult to interpret (Carlson & Wu, 2012).

Method

Participants and design. One hundred twenty supervisors (67% male; mean age 38.80 years, *SD* = 12.06) from a variety of organizations in the Netherlands participated in this study on a voluntary basis. Respondents worked on average 37.94 hours a week (*SD* = 9.82) and supervised on average 16 employees (*SD* = 24.63). As for their educational background, 11% had only secondary education (high school), 26% had vocational education, 43% a bachelor's degree, and 20% had a master's degree. Seventy-three percent of the respondents were working in for-profit organizations and 27% in not-for-profit organizations. Although we specifically targeted supervisors as a sample, four participants indicated they did not supervise any employee. We removed them from further analyses. However, analyses that included these four participants showed essentially the same results as those presented below. The participants were randomly assigned to one of the four conditions in a 2 (market competition: high vs. low) x 2 (transgression instrumentality: profit vs. loss) between-subjects design.

Procedure. We contacted a number of organizations to obtain approval for data collection among supervisors. Our research assistants visited the organizations that gave their approval and

personally approached the supervisors. The participating supervisors randomly received one of the four scenarios that resulted from orthogonally manipulating market competition and transgression instrumentality. To ensure that the instructions in the scenarios were clear, and to prevent potential distractions (e.g., coworkers interrupting), the research assistants remained present when the participants read the scenario and responded to the measures.

In each scenario, the participants were asked to imagine that they were a sales department supervisor in an insurance company. After providing some basic information about the company and the department, we introduced the participants to the market competition manipulation. In the *strong competition* condition, the market for the particular insurances that the team is selling was described as "highly competitive", that "competition between companies was very strong", and that "new competitors entered the market regularly". In contrast, in the *weak competition* condition, the market was described as "very stable", that "competition between companies was not very strong", and that "new competitors seldom entered the market."

After this, the scenario described a transgression in which one employee (Employee X) sold double insurances to a number of clients. More specifically, the participants learned that the employee sold two of the same type of insurances to several companies, which meant that these companies were insured twice (and would pay twice) for the same risk. Depending on the instrumentality condition, supervisors learned that this transgression either resulted in a loss for the company because clients cancelled their insurances (*loss condition*), or in a profit as some clients had paid twice for being insured for the same risks (*profit condition*).

Manipulation checks. To check the effectiveness of the market competition manipulation, we asked participants to report on a 7-point Likert scale (1 = *not at all*, 7 = *strongly*) the extent to which ''there is strong competition in the company's market". We checked the transgression instrumentality manipulation with two items: ''Because of Employee X, the

company has made more profit'' and a reverse scored item, ''Employee X has contributed to a negative result for the company" (1 = *not at all*, 7 = *strongly*). These items were significantly correlated (r = -.82; p < .001) and therefore combined into one scale.

Disciplining Behavior. Relevant research has measured disciplinary responses to employee transgressions in various ways. A number of experimental studies measured discipline with small scales of two or three items, or with just one or two separate items (e.g., Ashkanasy, 1989; Fragale, Rosen, Xu, & Merideth, 2009; Hoogervorst, De Cremer, & van Dijke, 2010; Notz & Boschman, 2001). Prior research indicates that informal discussions and warnings, written warnings, temporary suspensions, and discharges are the most commonly used disciplines in organizations (Beyer & Trice, 1984). Building on this prior work, we measured leader discipline using three items adapted from Mitchell and Wood (1980) and Hunt and Vasquez-Parraga (1993). These items assessed the degree to which the participant would "reprimand this employee for his behavior" and "give a strong warning" (1 = *not at all*, 7 = *strongly*). Because we were interested in whether leaders may sometimes refrain from using discipline, we added "not undertake any action" (reverse scored) as an item. These items are part of most measurements of leader's disciplinary responses (e.g, Bellizi & Hasty, 2003; Beyer & Trice, 1984; Dobbins, 1985; Hunt & Vasquez-Parraga, 1993; Mitchell & Wood, 1980; Rosen & Jerdee, 1974). We combined these items into a leader-discipline scale (α = .57).

Results

Manipulation Checks. A Market Competition x Transgression Instrumentality ANOVA on the competition manipulation check revealed the expected significant main effect of market competition ($F(1,115) = 534.06$, $p < .001$, $\eta^2 = .82$). Leaders in the strong market competition condition perceived the market as more competitive (M = 6.43, SD = 1.25) than the leaders in the low market competition condition did (M = 1.86, SD = 0.91). No other effects were significant.

A Market Competition x Transgression Instrumentality ANOVA on the instrumentality manipulation-check scale revealed a significant main effect of transgression instrumentality ($F(1,115) = 388.40$, $p < .001$, $\eta^2 = .77$). Leaders in the profit condition were more inclined to indicate the transgression as instrumental ($M = 6.03$, $SD = 1.29$) than the leaders in the loss condition ($M = 1.58$, $SD = 1.15$). No other effects were significant.

Hypothesis testing. A Market Competition x Transgression Instrumentality ANOVA on the leader-discipline scale revealed a significant main effect of transgression instrumentality ($F(1,116) = 6.62$, $p < .05$, $\eta^2 = .05$) (Figure 1). Employees were disciplined less when the transgression resulted in profit ($M = 5.21$, $SD = 1.15$) compared to when it resulted in loss ($M = 5.77$, $SD = 1.27$). The main effect of transgression instrumentality was qualified by the predicted interaction between market competition and transgression instrumentality ($F(1,116) = 7.16$, $p < .01$, $\eta^2 = .06$). Pairwise comparisons with Bonferroni adjustment revealed that when market competition was strong, employees were punished less when their transgression resulted in profit ($M = 4.87$, $SD = 1.34$) than when it resulted in loss ($M = 6.00$, $SD = 1.09$; $F(1,116) = 13.77$, $p < .001$, $\eta^2 = .11$). In less competitive markets, leader discipline did not depend on transgression instrumentality ($M_{gain} = 5.56$, $SD = 0.80$; $M_{loss} = 5.53$, $SD = 1.40$; $F(1,116) < 1$, ns).

[Insert Figure 1 about here]

Supplemental analyses. Because the discipline scale had a low α (.57), we tested if the effect of instrumentality, contingent upon market competition, was found on each of the three items. Initial analyses revealed that the score distributions on two of the three discipline items were strongly skewed, with a substantial number of participants strongly agreeing with the disciplinary action and an equally substantial number strongly disagreeing with taking the action. (Score distributions on the overall scale were much less skewed.) Square root and logarithmic

transformations (Tabachnick & Fidell, 2001) were insufficient to reduce skewness. We therefore used regression with robust standard errors (Chen, Ender, Mitchell, & Wells, 2003). These analyses revealed the expected Market Competition x Instrumentality interaction effect on "reprimand this employee for his behavior" (b = 1.24, robust SE = .47, $t(116) = 2.66$, $p < .01$) and on "not undertake any action" (reversed) (b = .98, robust SE = .59, $t(116) = 1.66$, $p = .05$). The Market Competition x Instrumentality interaction on "give a strong warning" was marginally significant (b = 1.05, robust SE = .74, $t(116) = 1.42$, $p = .08$). Therefore, although the three items measure different aspects of discipline that do not combine into a very reliable scale, the effect of instrumentality was contingent upon market competition for all three items.

Summary of findings and discussion

The results of Study 2 support Hypothesis 3: when market competition is strong, the instrumentality of a moral transgression (i.e., whether the transgression results in profit or loss for the company) predicts leaders' disciplinary behavior. Specifically, in competitive markets, employees are disciplined less severely when the transgression results in profit, rather than loss, for the company. In less competitive markets, leaders do not take the instrumentality of the transgression into account when deciding to discipline subordinates. These results provide evidence for the processing stage of the two-stage signaling-processing model (Tenbrunsel & Messick, 1999) applied to disciplinary responses towards moral transgressions. Indeed, finding that leaders' discipline of moral transgressions is contingent upon whether a transgression results in gains or losses is direct evidence for the operation of an instrumentality frame of reference among organizational leaders (as a result of market competition) in their decisions to discipline moral transgressors.

We decided to replicate and extend these findings in Study 3 for three reasons. First, in Study 2, the transgression was described as an employee having sold double insurances to some

clients. This makes it possible that participants interpreted the transgression as being unintentional and therefore amoral (e.g., Cushman, 2008). This interpretation does not undermine the conclusion that instrumental, profitability-related considerations are more important in competitive markets. However, it does not follow from this that moral considerations are less important in such environments. Therefore, in Study 3, we replicated Study 2, but this time we explicitly communicated to the participants that the transgression was done intentionally.

Second, across Studies 2 and 3, we wanted to adequately capture the types of disciplinary behaviors that are often used by leaders (Beyer & Trice, 1984). Therefore, in Study 3 we included two disciplinary responses that were different from those in Study 2: "give the employee a negative evaluation report" and "suspend the employee". As noted, analyses of the responses on the discipline items showed that these responses were strongly skewed, with up to 50% of the participants choosing a scale extreme that represented certainly taking the disciplinary action, or certainly not taking the action. To avoid such skewed responses, in Study 3 we had participants choose between the decision to either use discipline or not. This approach is in line with disciplinary responses in practice, which are often dichotomous in nature (e.g., suspend an employee or not).

Third, in Study 2 the participants in our research were organizational supervisors. This is clearly a strength of Study 2. However, relying on this type of participants required a procedure that sacrificed some experimental control (i.e., research assistants approached the participants, and the latter responded to the vignettes at their own place of work). This procedure could have potentially introduced bias in our results, so we conducted Study 3 in a controlled laboratory setting.

Study 3

Method

Participants and design. One hundred business undergraduates (55% male; mean age = 20.42 years, *SD* = 1.85) participated in return for course credits and were randomly assigned to a 2 (market competition: high vs. low) x 2 (transgression instrumentality: profit vs. loss) between-subjects design. Seventy percent of the participants had a job for which they worked an average of 12.87 hours per week (*SD* = 7.67). Including only the participants with a job revealed essentially the same results as those presented below.

Procedure. Upon their arrival at the laboratory, we welcomed the participants and placed them in separate, soundproof cubicles, each equipped with a table, a chair, and a personal computer. Participants were not able to see or hear each other during the entire study. The scenario for this study was the same as in Study 2, except we added in the description of the transgression the following sentences: "After having talked to colleagues of employee X, it has become clear that employee X did this intentionally. In other words, employee X was aware that he/she was selling double insurances."

Manipulation checks. To test the effectiveness of the market competition and transgression instrumentality manipulations, we used the same manipulation checks as we did in Study 2. As in Study 2, the two manipulation checks for the instrumentality manipulation were strongly intercorrelated ($r = -.74$; $p < .001$). Therefore, these two items were combined (after reverse scoring the second item) to create an instrumentality scale.

Disciplining behavior. We measured leader discipline using two binary items. The two items differed in the severity of the action and assessed two of the more prevalent types of disciplinary action (Beyer & Trice, 1984). The items asked whether participants would "give the employee a negative evaluation report" and "suspend the employee" (yes vs. no).

Results

Manipulation checks. A Market Competition (High vs. Low) x Transgression Instrumentality (Profit vs. Loss) ANOVA on the instrumentality manipulation-check scale revealed a significant main effect of instrumentality ($F(1,96) = 319.10$, $p < .001$, $\eta^2 = .77$). Leaders in the profit condition indicated that the transgression was instrumental ($M = 5.81$, $SD = 1.11$) more than the leaders in the loss condition did ($M = 1.98$, $SD = 0.99$). No other effects were significant.

A Market Competition (High vs. Low) x Transgression Instrumentality (Profit vs. Loss) ANOVA on the market competition manipulation check revealed a significant main effect of instrumentality ($F(1,96) = 339.79$, $p < .001$, $\eta^2 = .78$). Surprisingly, this analysis also revealed a significant interaction effect of market competition and transgression instrumentality ($F(1,96) = 5.25$, $p < .05$, $\eta^2 = .05$). Simple effects tests (with Bonferroni adjustment) showed that the market competition manipulation was successful for both the participants in the profit condition ($M_{StrongCompetition} = 6.40$, $SD = .72$, $M_{WeakCompetition} = 2.04$, $SD = 1.15$; $F(1,96) = 226.41$, $p < .001$, $\eta^2 = .70$) and the participants in the loss condition ($M_{StrongCompetition} = 5.96$, $SD = 1.20$, $M_{WeakCompetition} = 2.57$, $SD = 1.12$; $F(1,96) = 123.90$, $p < .001$, $\eta^2 = .56$). From a different vantage point, there was no effect of transgression instrumentality in either the strong competition condition ($M_{profit} = 6.40$, $SD = .72$, $M_{Loss} = 5.96$, $SD = 1.20$; F(1,96) = 2.87, *ns*) or the weak competition condition ($M_{Profit} = 2.04$, $SD = 1.15$, $M_{Loss} = 2.57$, $SD = 1.12$; $F(1,96) = 2.38$, *ns*). We therefore concluded that the competition manipulation was successfully induced.

Hypothesis tests. A binary logistic regression analysis with market competition, transgression instrumentality, and their interaction as predictor variables and the negative evaluation item as the dependent variable yielded a significant interaction effect ($B = -2.33$, $SE = .74$, Wald's $\chi 2$ (1, $N = 100$) = 5.06, $p < .05$) (see Figure 2). Simple effects analyses showed that

in competitive markets, negative evaluations were less often given when wrongdoing resulted in profit (46.7%, $N = 30$) than when it resulted in loss ((91.7%, n = 24), $B = -2.53$, $SE = .82$, Wald's χ^2 (1, $N = 100$) = 9.43, $p < .005$). In less competitive markets, negative evaluations were given just as often when transgressions resulted in profit (65.2%, n = 23) as when transgressions resulted in loss ((69.6%, n = 23), $B = -.20$, $SE = .63$, Wald's $\chi 2$ (1, $N = 100$) = 0.10, ns).

[Insert Figure 2 about here]

A binary logistic regression analysis with market competition, transgression instrumentality, and their interaction as predictor variables and the suspension question as dependent variable yielded the predicted significant interaction effect ($B = -1.78$, $SE = .89$, Wald's χ^2 (1, $N = 100$) = 3.99, $p < .05$) (see Figure 3). Simple effects analyses showed that in competitive markets, less suspensions were given when wrongdoing resulted in profit (16.7%, $N = 30$) as opposed to when it resulted in loss ((54,2%, $N = 24$), $B = -1.78$, $SE = .64$, Wald's χ^2 (1, $N = 100$) = 7.74, $p = .005$). In less competitive markets, suspensions were given just as often when transgressions resulted in profit (34.8%, $N = 23$) as when they resulted in a loss ((34.8%, $N = 23$), $B = .00$, $SE = .62$, Wald's χ^2 (1, $N = 100$) = 0.00, ns).

[Insert Figure 3 about here]

General discussion

Based on the two-stage signaling-processing model (Tenbrunsel & Messick, 1999) we argued that strong (vs. weak) market competition leads to the perception among leaders that organizational practices are based on instrumentality concerns, i.e., that such practices are focused solely on furthering the organization's interest. This should extend even to the evaluation of moral transgressions (i.e., the signaling stage; Hypothesis 1 and 2). Consequently, strong market competition should also make leaders' disciplinary responses to moral transgressions

more contingent on the latter's instrumentality for the organization. Thus, strong (vs. weak) market competition may make leaders' disciplinary responses to moral transgressions harsher when the transgression results in loss for the company (i.e., the processing stage; Hypothesis 3).

Across three studies we found support for these hypotheses. Study 1, an organizational survey among leaders at various hierarchical levels, supported the signaling stage of the model. Strong (vs. weak) market competition was found to be related to perceptions of organizational practices as being instrumental. This relation between market competition and instrumentality perceptions explained why strong (vs. weak) market competition was related to the perception that the organization's evaluation standards for transgressions are instrumental rather than moral (Hypothesis 1 and 2). Studies 2 and 3 were both experiments with organizational leaders and business undergraduates, respectively, as participants. These studies supported the processing stage of the model by showing that leaders in strongly (vs weakly) competitive markets are more inclined to discipline a moral transgression contingent upon the instrumentality of that transgression (i.e., contingent upon whether it results in either profit or loss for the company). When market competition is weak, leaders are not influenced by instrumentality concerns in their disciplinary responses to employees' moral transgressions. Therefore, by taking into account the broader context in which organizational leaders operate, our findings offer insights into *when* (i.e., instances of strong rather than weak market competition) and *why* (i.e., the adoption of an instrumental decision frame) leaders sometimes tolerate employees' moral transgressions. In the following sections, we discuss the implications and limitations of this research.

Theoretical implications

Our research contributes to the ongoing debate on whether market competition facilitates moral or immoral behavior within organizations. Conventional free market thinking holds that competition has only desirable outcomes and should even deter immoral behavior (Baumol &

Blackman, 1991; Hicks, 1935). Yet others have argued that competition can lead to questionable behavior to obtain competitive advantages (e.g., Greve, Palmer, & Pozner, 2010; Shleifer, 2004). However, empirical evidence for either claim is scarce and inconclusive. In fact, the effects of the broader external environment of organizations on the moral conduct of organizations and their members remain largely unexplored (Tenbrunsel & Smith-Crowe, 2008; Trevino, den Nieuwenboer, & Kish-Gephart, 2014; Trevino, Weaver, & Reynolds, 2006), and so are their effects on the leaders (Eisenbeiß & Giessner, 2012; Sethi & Sama, 1998). Our findings offer new fuel for this debate. We showed that given the positional closeness of leaders to the organizational goals, market competition is an aspect of organizational reality that particularly affects how leaders construe and make their decisions. Our findings support this idea and also suggest why previous studies that included only regular employees (who are positioned less close to the organization's goals) did not consistently find a relation between market competition and moral decision-making.

Our research aligns with the argument that to fully understand the complexities of leadership, scholars should take the broader context into account (e.g., see Hunt & Dodge, 2001; Marion & Uhl-Bien, 2002; Osborn et al., 2002). Although market competition has already been recognized as an important context for leaders' strategic behavior (e.g., Baum & Wally, 2003; Nadkarni & Barr, 2008), our findings suggest that market competition may be a particularly relevant contextual factor to consider in leadership research and theory because it puts pressure on two fundamental leadership responsibilities: organizational performance goals and moral obligations (Brown & Trevino, 2006; Kaiser et al., 2008). By threatening the organization's profitability and survival, market competition instigates leaders to focus on one of these responsibilities (i.e., facilitating organizational performance). However, this emphasis on safeguarding the organization's competitive edge may come at the cost of excluding another

fundamental responsibility, that is, leaders' moral obligations, which include taking action against moral transgressions (Brown, & Treviño, 2006). The leadership literature offers many insights in the main responsibilities and behaviors of effective leaders (e.g., Gerstner & Day, 1997; Piccolo & Colquitt, 2006; Podsakoff et al., 2006; Van Dierendonck, 2011) and ethical leaders (Brown & Trevino, 2006; Mayer et al., 2009). Our findings show that when one takes into account the complexities of the organization's external environment, factors such as market competition play a large role in how leaders are able to fulfill either one, both, or none of these responsibilities.

Our findings also contribute to the literature on leaders' disciplining behavior. Research on the determinants of discipline identifies employee performance as a strong predictor of harsher punishment (Podsakoff et al., 2006). What remains unclear, however, is *when* leaders will attend to and use these performance criteria in their deliberation. By pointing to the pivotal role of decision frames, our findings show that situational cues like market competition can activate moral or instrumental decision frames that may switch leader's disciplinary focus from the moral aspects of the situation to performance criteria, even for moral transgressions.

By focusing on leaders' reactions to *moral* transgressions, our findings also contribute to the emerging literature on ethical leadership. Actively managing moral conduct in the form of rewards and punishments is a crucial aspect of this leadership style, which also includes being an ethical role model and treating employees in a fair manner (Brown & Trevino, 2006; Den Hartog & De Hoogh, 2009). Although scholars have shown that the way in which people construe decisions (i.e., a decision frame) can be a context dependent determinant of whether moral reasoning and acting will take place (Tenbrunsel & Smith-Crowe, 2008), research in this area has examined only very specific contextual signals (e.g., linguistic cues or the presence of a sanctioning system) in very specific settings, like social dilemmas (Kay & Ross, 2003;

Tenbrunsel & Messick, 1999). We believe that our research shows that the insights from this decision frame literature are also relevant for ethical leadership in organizations because our findings show how highly salient aspects of the broader organizational environment activate decision frames and determine whether leaders display actual ethical leadership behaviors.

Finally, our results also contribute to the literature on Corporate Social Responsibility (CSR). A well-known definition describes CSR as "the firm's considerations of and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social [and environmental] benefits along with the traditional economic gains which the firm seeks" (Davis, 1973, p. 312). Our paper shows that moral considerations among organization leaders may suffer from strong market competition because such competition results in stressing "narrow economic requirements." Our study is therefore concerned with similar issues as those in the CSR literature. Interestingly, Aguilera, Rupp, Williams, and Ganapathi (2007) argued that an important gap in the CSR literature is the question of what actually makes organizations engage in CSR initiatives, or precludes organizations from such initiatives. By identifying factors that make organizational leaders (and consequently organizations) less likely to support and engage in CSR activities, this research may contribute to addressing this gap.

Practical Implications

At the start of this article we posed the question why immoral practices within organizations can go undisciplined over long periods of time. Our research reveals that strong market competition may make leaders condone unethical behavior that is profitable for the organization. As such, our findings suggest that market competition creates a strong instrumental focus among the primary decision makers (i.e., leaders) within organizations, making economic concerns overrule moral ones. Given the global pervasiveness of market competition, our

findings represent an interesting challenge for policy makers. We offer some recommendations below.

First, our findings suggest that policy makers (e.g., governmental agencies) should closely monitor highly competitive markets because in these markets leaders are more likely to consider profits as more important than moral values. Policy makers could therefore stimulate compliance with ethical standards in these markets in two different ways. Given that market competition creates an instrumental frame in which decision-making is based more on simple cost-benefit analyses rather than on moral judgments, a first option would be to directly tap into this instrumental decision frame by increasing the expected organizational costs of noncompliance with industry regulations and codes of conduct (Kirchler, 2007). Better enforcement and stronger sanctioning systems that make immoral acts more costly through expected sanctions will increase the likelihood that leaders in competitive markets will comply with legal and moral rules, and discipline accordingly. Although such an approach may not change the instrumentality of leaders' decision frames (and may even reinforce them, see Tenbrunsel & Messick, 1999), this 'frame fitted' regulatory strategy has the benefit that it directly speaks to the dominant instrumental concerns in competitive markets.

A big downside to the regulatory strategy described above is that it does not necessarily lead to, or may even prevent leaders to become more attentive to moral aspects of their decision-making. Moreover, policy makers face cost-benefit concerns, too and implementing more enforcement and stronger sanctioning systems also comes at high costs to them. Therefore, another valuable approach is to stimulate leaders to become more aware of the moral aspects of their decision-making thereby preventing them from making decisions solely based on instrumental concerns.

Here also lies an important role for organizations; to communicate explicitly what they expect from their leaders, particularly in competitive markets. By explicitly communicating that they expect their leaders to take into account moral values in their deliberations, this should make leaders more attentive to the moral aspects of their decision-making and thus make it less likely that leaders will focus only on instrumentality concerns when making decisions. Of course, training current leaders on how they can become ethical role models, how they can recognize moral dilemmas, and how to deal with unethical behavior of subordinates seems to be a logical first step here (Brown & Trevino, 2006; Mayer et al., 2012; Wimbush & Shepard, 1994).

Finally, we believe that business schools also have a part to play. Business schools often teach their students that focusing on the bottom line is the appropriate response to competitive situations (Nill et al., 2004). This focus may however impair aspiring leaders' ability to recognize ethical aspects of their decision-making. Although business schools increasingly offer ethics courses (Christensen, Peirce, Hartman, Hoffman, & Carrier, 2007), such courses would be particularly effective if they were incorporated in the regular curriculum (McDonald & Donleavey, 1995). Furthermore, rather than telling students that they should act in morally responsible way (a normative approach), it would be better to teach students *how* they can implement ethics in their future professional life by training them to recognize ethical dilemmas and educating them on the moral pitfalls they may face, such as disregarding moral values in competitive environments (Weaver, Reynolds, & Brown, 2014).

Limitations and suggestions for further research

Like all research, our studies have limitations too. First, Study 1 was a crosssectional study conducted among leaders who rated the intensity of market competition, instrumentality, and organizational standards for evaluating wrongdoing in their organizations. We believe that this study is important because it supports our argument that market competition affects

evaluation standards for moral transgressions via the activation of general instrumentality concerns and because it offers findings that are high in external validity. However, Study 1 does not allow inferring a causal relation between market competition and leader decision-making when facing actual moral transgressions. Therefore, in Study 2, we took a moderator approach and conducted an experiment with supervisors from a variety of organizations as participants. This study revealed a causal effect of the instrumentality of the transgression on the disciplinary punitive reactions to moral transgressions, and this causality is contingent upon market competition. A possible limitation of Study 2 is the fact that we did not measure the full range of disciplinary responses that have been identified as most commonly used in the literature (Beyer & Trice, 1984). To address this concern we conducted Study 3, in which we included two different yet often-used disciplinary responses to employee transgressions. This methodological diversity allows individual studies to borrow strength from each other and strengthens confidence in their findings (Campbell & Fiske, 1959). However, future research would do well to include a broader range of disciplinary actions that are available to leaders.

Given the lack of empirical studies examining how market competition affects the (ethical) decision-making of leaders, there are still many questions that should be addressed in future research. One question is whether leaders' hierarchical rank influences their sensitivity to market competition and the instrumental frame that it evokes. Our sample of leaders was comprised mostly of low- and mid-level leaders, with only a small number of senior leaders. However, high-level leaders may be more likely to identify with the organization and therefore become more sensitive to the organizational challenges posed by an external environment such as market competition (Cole & Bruch, 2006; Corley, 2004; Horton et al., 2014). This opens two potential avenues for future research. First, given that leaders, even at the top of the organization, can differ tremendously in the extent to which they identify with their organization (Reina, Zhang

& Peterson, 2014), future studies should examine organizational identification as an individual difference variable that may affect leader's disciplinary responses to employees' moral transgressions.

Second, one could wonder whether including lower-level leaders in our sample resulted in a conservative test of our predictions. Interestingly, research has shown that top-level leaders have a more optimistic view of organizational ethics than their lower-level colleagues (Trevino, Weaver & Brown, 2008; see also Chonko & Hunt, 1985). This raises the question whether leaders in higher ranks, who are relatively optimistic about the organization's morality, may be the first to trade moral considerations for instrumental concerns when dealing with moral transgressions of employees. Future research that targets more explicitly higher -ranking leaders should be able address these issues.[4]

Additionally, it would be interesting to test the interplay between market competition, which operates at the macrolevel, and variables at the microlevel, such as individual differences. Two intriguing variables to study in this respect are *moral identity* (Aquino & Reed, 2002) and *moral attentiveness* (Reynolds, 2008), which both have been identified as antecedents of ethical decision-making (Reynolds, 2008; Mayer et al., 2012). According to Mayer and colleagues (2012), high moral identity leaders are more likely to display ethical leadership because they want to act in ways that are consistent with their self-perception as a moral person. Likewise, Reynolds (2008) argues that people with a high moral attentiveness are more likely to recognize and consider moral elements in their decision. Our findings suggest that leaders may not recognize the ethical aspects of their decisions once an instrumental frame is evoked by strong competition. This then raises the question whether leaders high in moral identity or moral attentiveness will in fact take ethical considerations into account when instances of strong market steer them towards mainly considering instrumental concerns. Thus, future research needs to

show whether leaders' level of moral identity and/or moral attentiveness also facilitate ethical leadership in instances of strong market competition.

Finally, one needs to be careful in concluding that immoral behavior will always be tolerated in competitive markets when it results in immediate profit. Whether or not a leader will respond in a disciplinary way towards moral transgressions may also depend on whether morally appropriate behavior contributes to the competitive advantage of the organization. Scholars have argued that highly competitive markets also raise strong reputation concerns in organizations and that adopting ethical standards may in fact lead to stronger reputations and a competitive advantage (Chun, Shin, Choi, & Kim, 2013; Long & Driscoll, 2008; Luo & Bhattacharya, 2006; Sethi & Sama, 1998). Crucial in this respect seems to be the extent to which the immoral conduct poses a threat to an organization's reputation. Future research would do well to test how market competition and reputation concerns interact in directing leaders' disciplining behavior.

Concluding remarks

Taken together, our findings reveal how the broader context in which leaders and organizations operate (i.e., the level of competition with other organizations) has a considerable impact on intra-organizational processes such as leaders' discipline of moral transgressions. Strong market competition can undermine a leader's moral decision-making and diminish his/her responses to moral transgression to mere instrumental actions, focused on the organization's profit and loss. We hope that our findings inspire scholars to further explore how these contextual processes can shape in new ways our understanding of leadership and immoral behavior within organizations.

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Footnotes

[1]This scale has been used to assess the instrumentality of the organization's ethical climate. A climate is the "psychologically meaningful moral descriptions that people *can agree* characterize a system's practices and procedures" (Victor & Cullen, 1988, p. 101. Italics in original). Our research question is concerned with leaders' perceptions of the organization's practices and procedures and not with the level of agreement between leaders. We thus used this scale because it is relevant to our research question and not because we wanted to assess agreement between leaders, or, in other words, to assess the ethical climate.

[2]The full instrumentality scale contains seven items. We excluded two items from our analyses: "In this company, people protect their own interests above all else" and "In this company, people are mostly out for themselves". These items describe a focus on self-interest. The other five items describe a focus on the company's interest at the expense of morality. CFA showed that the fit of a three-factor model (market competition, instrumentality, and standards for evaluating moral transgressions) was insufficient when the full seven-item instrumentality scale was included ($\chi^2(62)/df = 6.51$, *RMSEA* = .10 (90% CI = .09–.11), *CFI* = .83). The fit of the model improved strongly, and indeed, to acceptable levels when the error terms of the two self-interest-focused instrumentality items were allowed to correlate ($\chi^2(61)/df = 3{,}73$, *RMSEA* = .07 (90% CI = .06–.08), *CFI* = .92). This indicates that the two self-interest items do not map well on the instrumentality factor. These results are in line with Wimbush, Shepard, and Markham (1997), who also found that the two self-interest items did not load on the instrumentality factor. Because our theoretical argument does not refer to self-interest but rather to a single-minded focus on the company's interest at the expense of morality, and because the two self-interest items did not load well onto the instrumentality factor, we decided to exclude these two items. Analyses with the seven-item scale revealed results similar to those in the main text.

[3]Scholars recommend including control variables only when a specific argument can be provided as to why the inclusion of a control variable would improve the estimation of the coefficients of the variables of interest (Carlson & Wu, 2012). We were unable to provide such arguments for the inclusion of demographic variables as control variables. One reason for this is that few correlations between the demographics and the predictor variables of interest (i.e., market competition and instrumentality) were significant (Table 1). Analyses in which we included the demographic variables as controls revealed essentially the same results for market competition and instrumentality as the analyses presented in the main text. The analyses revealed one significant effect of a control variable: compared to female leaders, male leaders perceived economic grounds to be more prevalent than moral grounds in the evaluation standards of moral transgressions (b = -.41, SE = 0.18, Wald's χ^2 (1, N = 602) = 5.04, $p < .05$). This result is in line with research that suggests that women display higher awareness of moral issues than men (Franke, Crown & Spake, 1997; Robin & Babin, 1997).

[4]We tested if leaders with a higher power position are more sensitive to the effects of market competition in their perceptions of an instrumental decision frame in Study 1. We measured hierarchical power by asking respondents how many employees they supervised (1 = *1-10 employees*; 6 = *more than 50 employees*. cf. Cartwright, 1959; Lammers, Stoker, & Stapel, 2009). We conducted moderated regression analyses with market competition, hierarchical power, and the interaction between these two variables as predictors, and instrumentality and standards for evaluating moral transgressions as criterion variables. These analyses consistently revealed trends that the relationship between market competition and the criterion variables is stronger among leaders with high rather than low hierarchical power. Yet, these trends were not significant (p values of the interaction varied between .17 and .52). This may result from the small number of top-level leaders in our sample.

Table 1

Correlation coefficients (Study 1)

Variable	Scale	*M*	*SD*	1	2	3	4	5	6	7
1. Market Competition	1-5	3.14	.93	(.74)						
2. Instrumentality	1-5	2.91	.63	.26***	(.72)					
3. Evaluation Standards: Economic vs. Moral	0 = Economic 1 = Moral	.47[1]	.50	-.39***	-.37***					
4. Evaluation Standards: Consequences vs. Ethics	0 = Consequences 1 = Ethics	.40[1]	.49	-.18***	-.29***	.39***				
5. Age	# of years	42.92	10.83	-.01	-.02	.01	-.01			
6. Sex	0 = male 1 = female	.38[1]	.49	-.09*	-.06	.12**	.01	-.10*		
7. Tenure	# of years	11.79	10.23	-.05	.04	.02	.01	.57***	-.10*	
8. Number of subordinates	1 = 1-10 6 = more than 50	-[2]	1.32	-.03	.01	.10**	.13**	.14**	-.09*	.19**

Notes. N = 602. Alpha coefficients are displayed on the diagonal.
[1] Values represent proportions of the value 0 on these variables. [2] Proportions for each value on this variable are given in the main text.
* $p < .05$, ** $p < .01$, *** $p < .001$

Figure 1. Mean Punishment as a function of Market Competition and Transgression Instrumentality for Study 2.

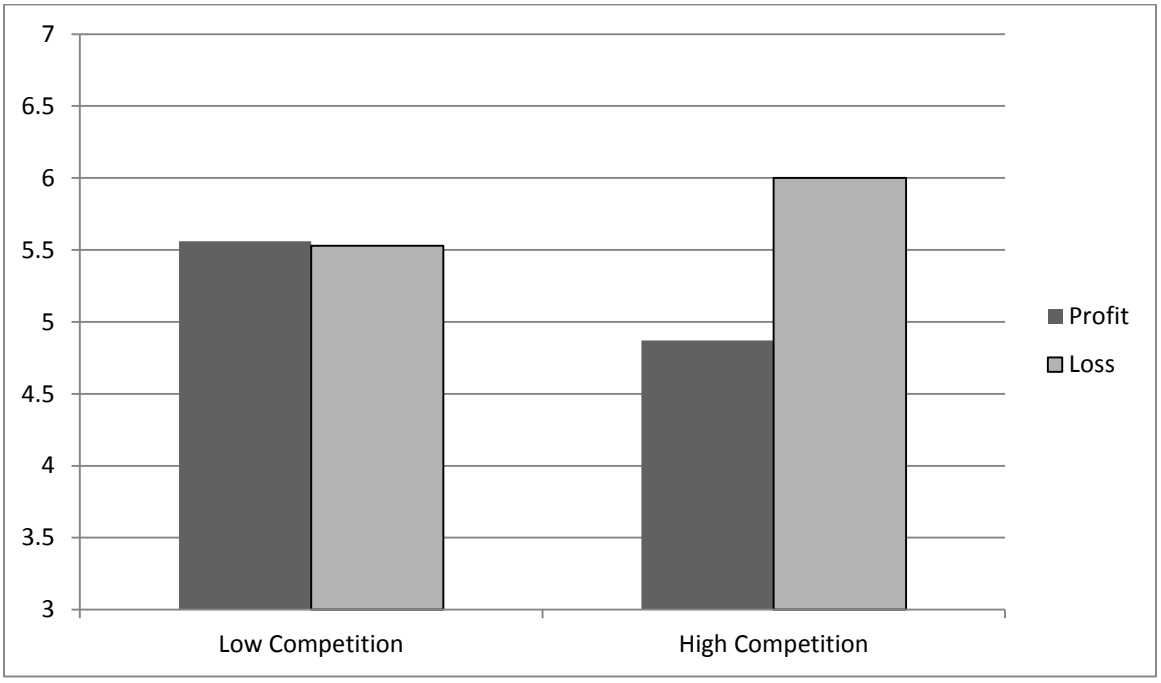

Figure 2. Percentage of Negative Evaluations as a function of Market Competition and Transgression Instrumentality for Study 3.

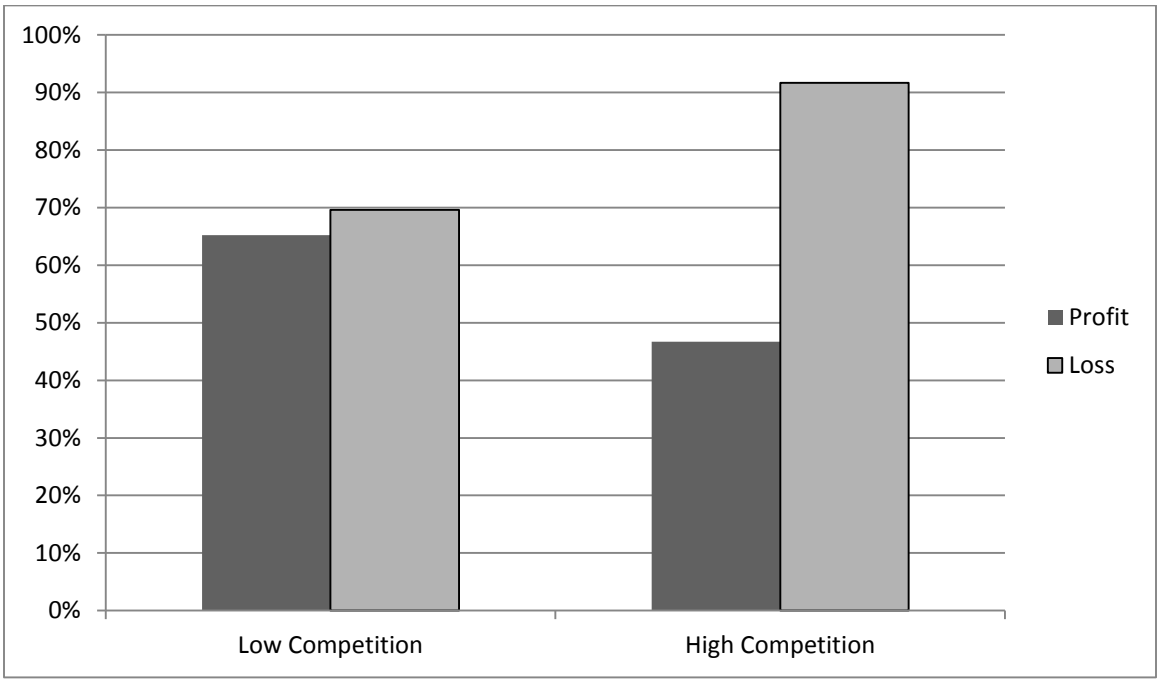

Figure 3. Percentage of Suspensions as a function of Market Competition and Transgression Instrumentality for Study 3.