A GAME THEORETIC APPROACH TO UNDERSTANDING ETHICAL CONFORMITY IN MARKETING

By

KELLY DUGGAN MARTIN

A dissertation submitted in partial fulfillment of
the requirements for the degree of

DOCTOR OF PHILOSOPHY

WASHINGTON STATE UNIVERSITY
College of Business

MAY 2007

To the Faculty of Washington State University:

The members of the Committee appointed to examine the dissertation of KELLY DUGGAN MARTIN find it satisfactory and recommend that it be accepted.

Chair

ACKNOWLEGEMENT

Many outstanding sources of support deserve recognition in the completion of this dissertation. First, I am immeasurably grateful to Dr. Jean L. Johnson for her guidance and support throughout my four years in the Ph.D. Program. As my dissertation chair and mentor, Dr. Johnson generously has given her time and energy and has challenged me to continue to improve my work on all levels. Her ideas, intellect, and commitment to research are an inspiration. It has been an honor and a true privilege to be one of Dr. Johnson's students.

I have been fortunate to be guided by a dissertation committee with such vast knowledge and expertise. Dr. John Cullen has encouraged and helped develop my interest in ethics. Dr. Cullen's ability to continue questioning and pondering research has led to some of the central questions in this dissertation. His scientific mentality and his remarkable example have helped me develop my own thinking and research abilities. Dr. Jill McCluskey's ideas and insights have been an inspiration. This dissertation would not have been possible without Dr. McCluskey's generosity and encouragement. Our weekly meetings helped me develop a skill set in game theory—something I never thought possible when beginning the Ph.D. program. It has been an honor to work with her. Finally, Dr. Trent Smith provided an entirely unique background and expertise with his knowledge of experimental economics. His creativity and abundance of ideas allowed me to overcome the constraints of my own thinking. Credit is due to Dr. Smith for his help in formulating the experimental designs and his knowledge of the inner workings of this methodology.

In addition to my committee members, I have benefited from the many other positive influences that have guided my learning and growth at Washington State University. In particular, I am grateful to Dr. Eric Spangenberg and Dr. David Sprott for their high quality seminars, their insights into this and other research, and their overall support throughout my Ph.D. program progress. Thanks also are due to my Ph.D. student colleagues and to Chris Talbott for her attention to detail and for her assistance in data collection.

Funding for the dissertation was made possible through the generosity of Dr. Jean Johnson, and by Dr. Darrel Muehling and the Department of Marketing at Washington State University, and through the Association for Faculty Women Harriett B. Rigas Award. The dissertation also benefited from the collective feedback of participants at the Excellence in Ethics Dissertation Proposal Competition sponsored by the Institute for Ethical Business Worldwide and the Mendoza College of Business at the University of Notre Dame. I am especially grateful to Dr. Patrick E. Murphy and Dr. Ann Tenbrunsel for their constructive comments.

On a personal note, this dissertation would not have been possible without the unconditional support from my husband, Michael Martin. I am also grateful for the encouragement of my parents, Karen Duggan the late James Duggan, and my brothers Kevin and Shane Duggan.

A GAME THEORETIC APPROACH TO UNDERSTANDING

ETHICAL CONFORMITY IN MARKETING

Abstract

by Kelly Duggan Martin, Ph.D.
Washington State University
May 2007

Chair: Jean L. Johnson

This dissertation extends marketing thought by addressing pressing ethical and strategic issues affecting theory and practice. Specifically, to what extent and under what conditions should firms incorporate a focus on ethics in their marketing strategies and initiatives? I investigate conditions surrounding these strategic marketing considerations with three essays including a mathematical model and two empirical investigations using game theory. The game theoretical model buttressed by the empirical results provide substantive conclusions for marketing ethics at the firm level that traditional limitations in data collection, to date, have precluded.

Focal firms and marketing managers must address the question of to what extent they will focus on ethics in their product offerings and marketing strategies. To further complicate this question, focal firms and managers must also consider the ethical behavior of upstream suppliers and other interfirm partners in such decisions. To probe these research questions, I draw from strategic marketing, economics, and sociological theory. Institutional theory informs on the nature and variety of normative challenges that press upon firms requiring some form of ethical

response. I propose the concept of conformity to describe how firms deploy marketing strategies and practices to address social and stakeholder norms. I derive from deviance theory to discuss ethical overconformity, or the exceeding of norms and expectations by firms in their marketing strategies and practices. The theoretical advancement of positive deviance, augmenting traditional negative deviance perspectives, allows a richer conceptualization of firm ethical conformity. Finally, questions of interfirm partner ethical behavior are cast in an agency theoretical perspective to illuminate the relevant information asymmetries involved.

The research questions unfold in three distinct manuscripts. In Paper One, I adopt a game theoretic approach and describe the mathematical models that shape ethical overconformity. Paper Two advances and experimentally tests the theoretical premises derived from the first manuscript. Paper Three employs experimental economics for a more fine-grained understanding of managerial information states relevant to leveraging ethics for strategic advantage, given the behavior of an upstream supplier. Ultimately, the conclusions from each of the three papers contribute to marketing theory and practice, while illuminate promising future research.

TABLE OF CONTENTS

Page

ACKNOWLEDGEMENTS ... iii

ABSTRACT ... v

LIST OF TABLES ... ix

LIST OF FIGURES ... x

DEDICATION ... xi

CHAPTER

1. INTRODUCTION ... 1

    Research Context and Motivation ... 4

    Organization of the Dissertation ... 8

2. THEORY AND CONCEPTS ... 10

    Marketing Ethics Research ... 11

    Dissertation Theoretical Framework ... 18

3. PAPER ONE ... 28

    "Firm Identity, Normative Pressures, and Ethical Overconformity: Strategic Implications for Marketing"

    Conceptual Background ... 34

    Model Assumptions ... 44

    Game Theoretic Model ... 48

    Discussion and Implications ... 61

    References ... 68

4. PAPER TWO 72

“Motivations for Ethical Marketing Strategies:
Empirical Evidence of Firm Identity and Market Response”

Conceptual Background and Hypotheses Development 75

Method 86

Results 97

Limitations, Future Research, and Conclusions 108

Measure Appendix Paper Two 114

References 115

5. PAPER THREE 120

“Ethical Augmentation in Business Markets:
The Role of Information States”

Conceptual Background and Hypotheses Development 127

Method 139

Results 156

Discussion and Implications 165

Measure Appendix Paper Three 171

References 173

6. DISSERTATION SUMMARY AND GENERAL CONCLUSIONS 180

GENERAL DISSERTATION REFERENCES 184

APPENDICES

1. PAPER TWO DATA COLLECTION MATERIALS 189

2. PAPER THREE DATA COLLECTION MATERIALS 203

LIST OF TABLES

4.1 Descriptive Statististics 99

4.2 Mean Ethical Augmentation Based on Firm Objectives 100

4.3 Mean Ethical Augmentation for Strategically Aggressive Firms 100

4.4 Partial Least Squares Results for Resampling with Bootstrapping 102

4.5 Logistic Regression Results for Zero Contributors 105

5.1 Descriptive Statististics: Marketing Manager and Supplier Samples 159

5.2 Partial Least Squares Results for Resampling with Bootstrapping: Marketers 161

5.3 Partial Least Squares Results for Resampling with Bootstrapping: Suppliers 164

LIST OF FIGURES

3.1 Conceptual Depiction of Ethical Overconformity 33

3.2 Firm Response to Shifts in Ethical Norms Differentiated by Firm Motivations 61

4.1 Mean Ethical Augmentation by Identity 106

4.2 Mean Ethical Augmentation for Strategically Aggressive Firms by Market Response 107

5.1 Conceptual Depiction Dissertation Paper Three 125

Dedication

This dissertation is dedicated to my husband Mike, who contributed to this work in so many ways. The completion of this dissertation is a testament to his strength, conviction, and never-ending encouragement. I am grateful beyond measure for his support.

CHAPTER ONE

INTRODUCTION

The marketing organization has long been considered the boundary spanning function of the firm. Marketing interfaces with the external environment, garnering the greatest visibility for the actions of the organization to stakeholders including investors, regulatory bodies, and the media (Ferrell 2007). Fundamentally, marketing is the link between customers and the firm (Smith 1993). For all of these reasons, researchers have declared marketing the functional area of the firm that faces some of the greatest ethical challenges (e.g., Murphy, Laczniak, Bowie, and Klein 2005). The boundary spanning nature of the marketing function, what is more, makes it the most necessarily intertwined with constituencies in the organizational institutional environment. As such, in many various strategic marketing initiatives, the firm encounters a unique set of regulatory requirements buttressed by increasingly complex ethical challenges.

Strikingly, research in marketing has yet to examine some of the most fundamental questions driving ethical marketing practices. Limitations in empirical analysis of such questions, further complicated by challenges in data collection, are likely at the heart of this dearth in knowledge. In its current state, however, marketing ethics has yet to examine issues as basic as the conditions under which firms choose to conform to societal norms by adopting ethical (or perhaps unethical) approaches to marketing. Put simply, why do firms choose ethical marketing strategies and practices when they are not required to do so? In contrast, no broad based perspectives have considered the factors at play when firms choose a very different approach to marketing strategy, by adopting a host of unethical marketing practices. For example, how is the overarching probability of firms' unethical behavior being discovered, and perhaps even reprimanded, reconciled at an organizational level? No doubt firms weigh multiple, complex factors in determining which ethical path they will ultimately pursue.

As such, this dissertation seeks to explain why, and under what conditions firms respond to social norms through *ethical conformity* with their marketing strategies, practices, and behaviors. Moreover, I evaluate the impact of conformity decisions on firm performance and market response. A variety of theoretical frameworks inform the phenomena comprising the three essays that follow. For example, in the first and second papers, I extend sociological theory to cast overconformity in the larger framework of positive deviance (e.g., Adler and Adler 2000; Spreitzer and Sonenshein 2004) at the firm level. In all three papers, organizational theory on firm identity (e.g., Albert and Whetten 1985; Gioia, Schultz, and Corley 2000) provides a richer perspective of both the internal and external influences on ethical conformity in marketing. Finally, in Paper Three, questions of ethical conformity are considered in the context of interfirm decision making, where the information asymmetries characteristic of an agency theoretical perspective (e.g., Jensen and Meckling 1976; Mishra, Heide, and Cort 1998) are extrapolated to understand the leveraging of ethics in downstream consumer markets.

As alluded to previously, it must be noted that much of the difficulty in approaching such interesting yet sensitive questions involves the complexity of gaining access to firms in order to acquire insights into decisions and processes involving ethics. Scholars have offered ideas about the challenges of advancing marketing ethics research, and have linked key obstacles in the marketing ethics domain to the complications of acquiring empirical data. In particular, the notion of studying dark side variables (Mick 1996), such as the conditions that incubate ethical (or ethically questionable) behavior is complicated by a number of factors. Indeed, a variety of obfuscating phenomena that both complicate and hinder ethics research have been purported, including a tendency for respondents to withhold essential information. Perhaps more troubling, however, is the suspected likelihood of organizational respondents to provide information that reflects social desirability biases. As such, perhaps some of the most puzzling and important questions that might be explored to extend the marketing ethics domain are avoided altogether due to overwhelming obstacles and insurmountable data collection constraints.

Economic models in general, and game theory in particular, allow researchers to ask interesting research questions, such as those involved with marketing ethics, by allowing one to mathematically determine the outcomes of complex and contingent relationships and interactions among entities (Moorthy 1985). Game theory provides an ideal context for asking marketing ethics questions because it subverts many of the obstacles inherent in traditional marketing ethics research described above. Although perspectives limited to game theoretical models may lose some of the unique insights from marketing managers, the problems of social desirability biases and refusal to respond are avoided by looking at marketing ethics through a game theoretic lens. Because I use both game theoretical modeling and experimental economics methods with actual managers, the scope of this dissertation may suggest new avenues for asking marketing ethics questions. It is my hope that these novel methodological techniques might make the marketing discipline more receptive to future research in marketing ethics using such empirically rigorous approaches. In the face of increasing ethical pressures and challenges faced by marketing managers, exploring unique marketing ethics scenarios potentially will prove valuable for marketing research in general and the marketing ethics domain in particular.

This dissertation contributes to the domain of marketing by considering the fundamental theoretical and economic drivers of ethical conformity that have, to date, been overlooked in the literature. The important underlying considerations at play in decisions of ethical conformity warrant more serious investigation, particularly in light of the corporate landscape's emphasis on ethical performance and increasing popularity of leveraging ethics in the marketplace (e.g., Engardio 2007; Taylor et al. 2007). The press for ethical conformity by external legitimating associations, such as the New York Stock Exchange and the Nasdaq, is not likely to dispel any time soon (e.g., Paine, Deshpandé, Margolis, and Bettcher 2005). Not only must future research investigate the conceptual determinants of ethical conformity, but the role of the institutional environment, important interfirm partners, downstream customers, other stakeholders, and the market in general in this process warrant consideration as well. Accordingly, I evaluate focal firm ethical conformity through different theoretical lenses as it involves each of these facets. In the course of the three essays, moreover, this dissertation contributes to the literature by offering preliminary understanding of ethical conformity in marketing by mathematically and empirically evaluating the multiple drivers and outcomes.

RESEARCH CONTEXT AND MOTIVATION

This dissertation is inspired by a desire to better appreciate the manner in which the marketing organization responds to the ethical concerns of its customers and other external constituencies in light of normatively charged pressures. I attempt to better understand these broad based phenomena by investigating firms' strategic approaches to marketing ethics using concepts of conformity and ethical augmentation, which are defined and described in the papers that follow. Ultimately, the ethical, or perhaps ethically questionable, marketing practices employed by firms communicate a range of messages to constituents across the environment. Communication, as such, may or may not be the intent of the firm, yet such actions and behaviors are powerful communicators nonetheless. I argue that a better understanding of the underlying reasons for firm adoption of ethical or ethically questionable approaches to marketing will provide a new appreciation for firms' relationships with and influences on various decision makers in the external environment. Not to be overlooked, moreover, is firms' long-term profitability and viability as a result of the ethical conformity approach chosen. Consistent with research in environmental economics (e.g., Konar and Cohen 1997), I predict that a firm's approach to ethical decision making in marketing, particularly in the cases of conformity with societal and stakeholder norms, can have profound effects on the long-term firm performance and other measurable marketing metrics.

In light of these goals, I address the following overarching research questions through the three essays comprising the dissertation. Specifically,

1. How might the marketing organization respond to normative pressures through conformity, and as a communicating mechanism with the institutional environment in the context of ethical decision making situations?
2. What are the factors that drive firms to *overconform* with societal norms and expectations by adopting ethical marketing strategies, and what is the likely market response? Furthermore, what role does firm identity play in this process?
3. How does a marketing manager's knowledge of the ethical behavior of an upstream supplier influence the focal firm's decision to leverage ethics in the marketplace? How can the creation of various information states influence marketing managers' downstream ethical decision making in the context of information asymmetries and uncertainties regarding an upstream supplier?

To conceptualize ethical conformity, I present economic models to quantify the unique relationships, conditions, and assumptions inherent in each. The fundamental premises underpinning the models, and from which the key assumptions are derived, are grounded in economic, sociological, and strategic marketing theory. Specifically, I am motivated and inspired by the limited work that has investigated the interface between these bodies of knowledge and, therefore, seek to extend the marketing ethics domain through the confluence of these multiple yet related streams of research. I draw upon game theory to answer the marketing ethics questions, and use it to explore a number of scenarios and contingencies. Appealing to the core premises of marketing as the boundary spanning function of the firm, and marketing as the organizational liaison responsible for firm interactions with customers and other stakeholders, the implications of the models will have broad application to a range of firm strategic marketing decisions involving ethics.

Through the scope of this dissertation, I adopt a novel approach to understanding the interdependency between marketing, its customers, and its environment in the context of ethical decision making. By modeling the research questions through a game theoretical lens, this work seeks to address the complex interactions between marketing decision makers and institutional norms based on unique marketing ethical scenarios and conditions. More specifically, I investigate the outcomes, including potential payoffs from market response that accrue to the marketing organization based on its approach to ethical conformity. I analyze the marketing managers' propensity to overconform as opposed to subverting or simply conforming, and evaluate the benefits compared to the negative effects of such choices. Game theory and experimental economics allow me to formulate the particular balance that is most likely to produce ethical outcomes for the good of the marketplace, as well the balance that will produce the greatest utility for marketers and customers based on the unique circumstances surrounding the research questions.

This dissertation contributes to the literature by examining an issue that is fundamental to nearly all marketing ethics questions; namely why and under what conditions firms choose the ethical paths they do. Although consumer responses to ethical or socially responsible marketing practices have been fruitfully examined in the literature (e.g., Klein, Smith, and John 2004; Luo and Bhattacharya 2006; Sen and Bhattacharya 2001), no research has looked introspective to the firm to understand the collective motivations driving its ethical marketing activities, programs, and behaviors. Strategic marketing interactions steeped in ethical implications and viewed from the perspective of the marketing manager, moreover, have never been examined or modeled through a game theoretical lens. Game theory augmented with experimental economics data allows this dissertation to extend the boundaries of marketing ethics, overcoming many of the limitations that have previously constrained the scope of ethics research. Ultimately, this work contributes to the marketing discipline by examining both the drivers and the outcomes for marketing organizations based on ethical conformity as a firm response to societal normative expectations in their marketing practices. An understanding of these outcomes in light of actual marketing managers' responses to ethical problems is further clarified in the context of the experimental studies. By placing marketing decision makers in complex and highly contextual marketing ethics scenarios, I evaluate their actual investments in conformity and willingness to leverage ethics in the marketplace in light of satisfying customer demand and achieving long-term objectives and profitability.

ORGANIZATION OF THE DISSERTATION

In fulfillment of the research objectives, the dissertation is organized into three separate, stand-alone papers. To appreciate the complexity of the research questions in the context of the literature, however, it is necessary to weave together multiple distinct bodies of knowledge before proceeding with the individual papers. Specifically, to proceed I highlight work in marketing ethics to understand the context within which the dissertation is framed. I explore the progression of this stream of research, and articulate how the three essays contribute to its advancement. Subsequently, I turn to sociological and organizational theory, namely institutional theory, to lay the groundwork for understanding the external normative pressures impacting a firm. Also under the rubric of sociological theory, I use deviance theory and the literature on firm identity to propose reasons why a firm would choose a response to normative pressures that either exceeds or perhaps just meets societal expectations. By intertwining these knowledge bases, which serve as the foundation for the three essays' research questions, I provide a preliminary explanation of firm motivations for ethical conformity with their marketing practices and behaviors.

Following a detailed review of the literature comprising Chapter 2, I present the first paper, which is a conceptual and theoretical treatment of ethical overconformity. Traditional game theoretic principles guide this paper and allow derivation of the equilibria outcomes that are relevant to the relationships suggested by the research questions. Game theory allows for empirical modeling of the questions and provides solutions to each unique interaction inherent in the overarching research motivation. Specifically, in Paper One I mathematically model a duopoly situation where an overconforming firm and a conforming firm are juxtaposed against one another. Given customer utility for ethical products, the firms compete on price and the ethical attributes of a product. From this, I am able to provide propositions and offer implications of the complex relationships involved with ethical conformity. This paper, in its completed form, is found in Chapter 3.

Papers Two and Three follow, each in their completed forms and comprising Chapters 4 and 5 respectively. Each empirical treatment follows a traditional experimental economics approach and addresses two separate research questions derived from the broader study context. At the conclusion of each paper, I relate and interpret the unique findings drawn through a discussion and conclusion, summarizing the research outcomes and allowing me to suggest future areas of exploration that could potentially evolve from each paper. Finally, I conclude the dissertation with a brief summary and conclusion of the collective findings and contributions of the three essays.

CHAPTER 2

THEORY AND CONCEPTS

The marketing literature has commonly defined ethics as “the study and philosophy of human conduct, with an emphasis on the determination of right and wrong” (Ferrell 2007, p. 858). Therefore, ethical marketing from a normative perspective may be thought of as practices that emphasize transparent, trustworthy, and responsible personal and organizational marketing policies and actions that exhibit integrity as well as fairness to consumers and other stakeholders (Murphy, et al. 2005).

Marketing is the natural boundary spanning function of the organization due to its focus on decisions at the periphery of the organization, including advertising, distribution, and sales for example (Ferrell 2007). Inherent in such activities is also an increased propensity for role conflict and role ambiguity in addition to more frequent opportunities and pressures to engage in deviant behavior (Mascarenhas 1995). Over time, what once existed as values and principles to subvert such negative activities as well as to guide marketing decision making have been codified and formalized as laws grounded in societal and governmental expectations of proper conduct. Today, as marketers are faced with new and evolving challenges related to their behavior, communications, and decision making, new codes of ethics will necessarily be adapted to account for shifting societal values, expectations, and norms. Laws and regulatory policies will certainly lag behind in accounting for the rapidly amorphous preferences of stakeholders and society (Murphy et al. 2005). Thus, it seems that marketers as boundary spanners potentially are positioned at the forefront of revolutionary ethical decision making. Indeed, on a day-to-day basis, marketers will be required to interpret their actions and decisions far above what the letter of the law currently stipulates (e.g., Smith 1993).

Ethical decision making surrounding marketing also has been a concern due to marketing's heightened focus on relationships with customers and other stakeholder groups (e.g., Gundlach and Murphy 1993; Maignan and Ferrell 2004). Indeed, concern continues to grow and evolve that organizations must focus not just on the end consumer, but also on all the relevant constituencies and communities that ultimately hold the firm accountable for its decisions and actions. Beyond this, emerging logic within marketing encourages a balanced emphasis on both social and economic processes, as well as networks of relationships to facilitate and advance the skills and knowledge of all stakeholders (Vargo and Lusch 2004). Research demonstrates that responsible and ethical marketers are better positioned to fulfill these hefty requirements and have catalyzed these strengths to garner increased levels of trust among constituency groups (e.g., Murphy et al. 2005).

BACKGROUND: MARKETING ETHICS RESEARCH

Concern for a greater societal good and, moreover, how marketing actions and decisions might impact society began as far back as the 1930s, when early work addressed issues such as fair trade laws (see Phillips 1939). A surge of interest in marketing ethics, however, did not materialize until the 1980s, most notably with the advancement of several all-encompassing macro-models of marketing ethics. The Ferrell-Gresham model (Ferrell and Gresham 1985) garnered special attention by examining managerial and employee interactions, processes, and characteristics within the firm to understand ethical decision making. This well-known and widely-cited model catalyzed a stream of research within marketing and, moreover, emphasized the importance of ethical decision making in marketing decisions. Three factors, argued the authors, uniquely combine to determine ethical or ethically questionable decision making, including individual differences and characteristics, the role of significant others in the firm, and the actual opportunity to engage in deviant behavior. Of these, the authors recognized explicitly that elevated opportunities for ethically questionable decision making are inherent in the marketing function due to its boundary spanning nature. Because the marketing function serves as the link between the external environment, particularly customers and other stakeholder, and the firm, it is increasingly susceptible to pressures to deviate. Indeed, marketing is especially prone to opportunities to engage in ethically questionable behavior, more so than other firm functions that are largely insulated from the external environment. Whether or not deviant behavior in marketing occurs with greater frequency, suggested the authors, deviant actions that do occur are likely to be more visible to external constituencies (Ferrell and Gresham 1985).

Similar to the Ferrell-Gresham model, the Hunt-Vitell model (1986) provided a descriptive framework for understanding marketing ethics, as opposed to a normative approach where guidelines for behaving ethically or, moreover, for determining right and wrong have been prescribed. The authors, furthermore, encouraged future descriptive and empirical research in marketing ethics. Their framework, they argue, provided a foundation for such testing in that it is grounded in moral philosophy, while also conceptually distinct from normative perspectives in that it posits substantial and fruitful relationships germane to quantitative application.

As the marketing ethics stream of literature developed and progressed, it diverged primarily into research centered on understanding ethical decision making by managers and organizational actors within the firm. In addition, research exploring more macro level questions such as ethics in strategy and the implications of social responsibility initiatives for the firm gained in popularity. Finally, customer response to ethical scenarios and ethical offerings (or perhaps misgivings) by the firm has also emerged as a promising stream of research. The following discussion of ethical considerations in marketing, therefore, is organized around these thematic domains beginning with a discussion of ethical decision making research as it involves the individual marketing manager.

Marketing Managerial Decision Making and Ethics

Drawing from early work on cognitive moral development (e.g., Kohlberg 1984), researchers became interested in individual differences and other characteristics that influenced ethical decision making by marketing managers. Highly educated females in marketing with advanced cognitive moral development, researchers found, possessed elevated levels of concern for social responsibility issues (Goolsby and Hunt 1992). Furthermore, marketing professionals in general compared favorably with professionals in other fields (Goolsby and Hunt 1992) contrary to early work positing the opposite conclusion (e.g., Farmer 1967).

Beyond individual ethical decision making by marketing managers, internal organizational atmospheres that promote ethical values and foster benevolent climates have been found to encourage ethical decision making at the collective (Victor and Cullen 1988). Grounded in moral philosophy and sociological theories of group behavior, ethical climate may actually be quantified and conceptualized into a number of different types (Martin and Cullen 2006; Victor and Cullen 1988). Ethical climate has received much attention and application in the ethics literature and in marketing (see for example Dorsch, Swanson, and Kelley 1998). Indeed, a number of positive outcomes have been linked to organizational climates both benevolent and rule-based, including organizational commitment by employees, organizational performance, and even customer satisfaction (e.g., Cullen, Parboteeah, and Victor 2003; Hunt, Wood, and Chonko

1989; Kennedy, Ferrell, and LeClair 2001; Weber 1995). Recently, research has associated deviant behavior with self-interested or egoistic ethical climates. Falsifying company reports, divulging corporate secrets, and improperly accepting gifts or favors are a few examples of unethical behaviors found to be increasingly prevalent in egoistic climates (Peterson 2002).

Related work extended an understanding of marketing managerial decision making by examining the configurations of managerial responsibility for ethical issues (Mascarenhas 1995). Because marketing managers make decisions in a variety of ethical contexts, this research argued that it is critical to understand the implications of those decisions through the lens of a diagnostic framework. Specifically, a variety of relevant factors were set forth by which marketing managers may gauge ethically oriented decisions, including conditions of constraint or duress, choice of alternatives, and the role of corporate goals for example. These and other factors combined and interacted to inform managerial decision making and to emphasize the degree personal managerial responsibility in such decisions.

Ethics and Marketing Strategy

Influenced largely by the marketing macro models of ethical decision making (i.e., Ferrell and Gresham 1985; Hunt and Vitell 1986), notions of social responsibility, and particularly corporate social responsibility (CSR), have gained popularity in the marketing discipline. Calls for increased attention to social responsibility in the marketing strategy process were advanced in early work, grounded fundamentally in notions of social contract theory and the implicit interdependence between business and society (e.g., Robin and Reidenbach 1987). Researchers expressed that social responsibility and ethical considerations be incorporated into every phase of the strategic decision making process, including the strategy formulation, planning, and implementation processes (e.g., Hosmer 1994; Robin and Reidenbach 1987).

Indeed, as argued by one author, and perhaps in response to perceived corporate wrongdoing, all strategic development should be conducted “as if ethics mattered” (Hosmer 1994).

As firms began to approach social responsibility considerations in different ways and used a variety of mechanisms by which to incorporate decidedly ethical elements into their marketing strategy, marketing research followed suit. New strategic mechanisms such as cause related marketing and enviropreneurial marketing (e.g., Menon and Menon 1997; Varadarajan and Menon 1988) were evaluated with a critical eye toward consumer perceptions of firm sincerity as well as strategic performance. These pro-social consumer influence strategies, research demonstrated, were subject to a number of moderating conditions including the overall trust of consumers in the marketing communications (Osterhus 1997). Evolving from research investigating pro-social and CSR strategies, consumer response to such approaches by firms has become a pressing question for marketers (e.g., Luo and Bhattacharya 2006).

Finally, seminal work on marketing relationships (e.g., Dwyer, Schurr, and Oh 1987) motivated research contributions aimed at understanding the ethical implications of relational exchange. In particular, the ethical and legal outcomes of relational marketing exchanges were shown to intersect and provide implications for marketing managers based on the level of relational exchange characterizing their transactions (Gundlach and Murphy 1993). Once again, notions of trust and responsibility played critical roles in relational outcomes, however this work examined these qualities as they fostered ethical exchange between channel partners and other business-level affiliates. Subsequent normative ethical research framed these ideas in the context of social contract theory, advancing an integrative social contract theory central to relational marketing exchange (Dunfee, Smith, and Ross 1999).

Marketing Ethics and Customer Response

Actions with ethical consequences that are conducted by firms must not be considered statically, argued this body of research. Indeed, consumers have employed a variety of responses to perceived corporate wrongdoing and marketing egregiousness (e.g., Martin and Kracher 2007). This and related literature has informed on a number of response mechanisms by which consumers have expressed their disdain for certain behaviors allegedly perpetrated by firms.

One of the more relevant responses, of particular interest to marketing researchers, is consumer boycott behavior. For some time, the literature advised that consumer purchases may be mobilized much like votes (e.g., Dickinson and Hollander 1991), where consumers can express support for firm activities by loyally purchasing and recommending products offered by that firm. This, of course, is an ultimately desirable response enjoyed by firms who have somehow communicated messages met with high regard and approval by important constituency groups and customers. Of particular concern to firms, as well, is the abstaining of purchase by customers to convey displeasure with firm activities. Boycott behavior, specifically, has been conducted by concerned citizen groups dating back well into the 14th century (Klein, Smith, and John 2004), and likely far before this time. Boycotts historically have had powerful and detrimental consequences to firms.

Recent empirical work delineated the multiple motivations behind consumer boycott participation decisions (e.g., Klein, Smith, and John 2004). Aside from the act of withholding consumption, boycott behavior may be viewed as a form of prosocial behavior, where certain causes are ultimately advanced in the mind of the consumer and perhaps in terms of firm impact as well. Consumers withhold consumption to benefit a larger cause, even when the withholding is a considerable sacrifice to the consumer. Balancing of such personal interests and making sacrifices in consumption for larger social benefit has been viewed from a social dilemma perspective by marketing researchers (Sen, Gurhan-Canli, and Morwitz 2001). Again, a kind of customer voting is said to be occurring with boycott and similar prosocial behaviors.

Boycott behavior may be modeled economically similarly to other collective action problems (e.g., John and Klein 2003). Like other collective action scenarios, boycotting is subject to similar problems including free-rider and small-agent problems. Motivations for boycotting, according to these researchers' model, have been driven largely by both group dynamics and personal psychological characteristics, described in terms of expressive and instrumental forces. When investigating the underlying motivations driving the actual participants in an ongoing, large-scale boycott, researchers found that the perceived egregiousness of a firm's behavior was a critical determinant of boycott participation. In addition, a consumer's internal belief that his or her participation had an impact on the overall boycott significantly affected the overall willingness to boycott, as did the effect that boycott participation had on the individual's self-esteem (Klein, Smith, and John 2004).

More recently, less pronounced consumer responses to firm ethical egregiousness have been considered. The shifting of a brand from reverence and favoritism by consumers, to becoming what is termed a dopplegänger brand was recently explored in the literature (Thompson, Rindfleisch, and Arsel 2006). Consumers, through a variety of new technologies and communication mechanisms may express disapproval for firms' egregious or ethically questionable behavior through creative and potentially damaging means. Beyond the traditional word-of-mouth communications which have been investigated in the consumer research literature for some time, consumers may now post and spread discontent with perceived inappropriate firm actions with immediacy and to a broader geographic scope than ever before imagined through various online technologies (Martin and Kracher 2007). The reputational effects of these protest tools have been difficult for researchers and firms to quantify, but are no doubt powerful in both scope and reach.

Marketing ethics, as the review of the body of literature demonstrates, has been shown to impact the firm at a number of levels and on multiple fronts. The demands placed on marketing in its various facets ultimately derive from the institutional environment. As marketing is the boundary spanning function of the firm, its multiple touch points with the external environment create numerous situations where the propensity for either ethical or ethically questionable action abounds. Cast in the larger body of marketing ethics research, the following discussion sets the stage for the specific theoretical framework conceptually underpinning the three essays of the dissertation. In this framework, the concept of ethical conformity is delineated, and ranges of conformity in ethical marketing behaviors are described.

DISSERTATION THEORETICAL FRAMEWORK

Stakeholders and the market in general expect firms to respond to ethically charged issues through their marketing practices and other behaviors. Examples of ethically charged issues to which firms have been called upon to respond include worldwide poverty and the spread of disease, global warming, natural resource depletion, and the massive accrual of man-made waste, to name a few (Taylor et al. 2007). As evidenced in the marketplace, firms respond to these and a host of additional normative concerns along a continuum with their activities and practices. In the case of ethical *overconformity*, firms exceed expectations by adopting marketing programs and behaviors that go above and beyond what society has determined is acceptable. On the opposite end, firms choose *underconformity* or a conscious subversion of ethical norms through a firm's marketing programs, activities, and behaviors. *Conformity*, in between overconformity and underconformity, is simply meeting the ethical standard with the aforementioned marketing programs.

The extant literature provides little guidance for marketing theory or marketing managers with regard to questions of ethical conformity and the resulting market response. This discussion, therefore, explores and clarifies the theoretical foundations that underscore ranges of firm conformity as an adaptive response to normative expectations. I draw on powerful frameworks from marketing ethics, strategy, and sociology to frame our questions and advance testable research propositions. I conclude by suggesting future research needed to develop this domain, specifically in the form of empirical inquiries uncovering firm strategic decisions with ethical implications.

Setting the Stage for Ethical Conformity

Ethics, by definition, blur the lines between actions and behaviors considered appropriate and acceptable as well as both legal and moral (e.g., Ferrell 2007). Society's ethical expectations and mandates evolve apart from, and usually in advance of, formalized regulatory mechanisms. In some situations and applications, laws and regulations governing firm actions are direct outgrowths of social norms and expectations (e.g., Dunfee, Smith, and Ross 1999; Murphy et al. 2005). Over time, appropriate regulatory responses to remedy certain ethical issues have emerged basically because, in these cases, an overwhelming majority of various stakeholders typically demand such formalized actions be implemented. Many marketing activities, such as the use of RFID technologies to track consumers without their knowledge, remain within the blurred area just shy of demanding explicit regulation but not palatable and acceptable to society (Albrecht and McIntyre 2005).

The socially normative influences shaping marketing ethics and other behaviors have often been linked to institutional factors. Marketing decisions regarding conformity, in light of normative expectations, represent a response mechanism to the institutional environment (Grewal, Comer, and Mehta 2001; Grewal and Dharwadkar 2002). Indeed, a number of firm behaviors and practices generated from the institutional environment occur in response to societal norms (e.g., Selznick 1996). An institutional approach to understanding the organizational environment places a central emphasis on legitimacy concerns (Suchman 1995). Specifically, validating processes arise in demonstration of firms' willingness to embrace socially accepted norms and behaviors (e.g., Baum and Oliver 1991). Following this logic, a firm may conform with respect to its marketing practices in an effort to attain legitimacy given the social forces impinging upon it. Normative pressures evolving from the institutional environment are dispersed throughout the gamut of stakeholder groups, suggesting that a firm's behaviors and activities concern not only consumers and users of its products, but also society as a whole. Because of the scope and magnitude of their impact, this dissertation is concerned with overarching social forces such as the environmental sustainability and human rights concerns noted above that are held by multiple stakeholder groups within the institutional environment and demand some form of firm response (DiMaggio and Powell 1983).

Institutional theory, in particular, implies tradeoffs that firms must make between conformity and differentiation. Indeed, if firms facing the same institutional constraints conform similarly to those pressures, the collective of firms would approach a state of perfect competition where no firms possess competitive advantage through differentiation and all players compete for the same scarce resources (Deephouse 1999). Yet, although differentiation can be a vehicle through which firms accrue important resources and advantages, minimum acceptable levels of conformity are required for a firm to remain legitimate in the eyes of its many stakeholders (DiMaggio and Powell 1983). Based on these often contradictory objectives, firms strive to strike the ideal balance of differentiation and conformity in their marketing strategies and practices (Deephouse 1999).

Clearly, the multiple and various norms held by stakeholder groups evoke a range of responses across firms. Normative expectations related to ethical marketing practices are no exception. For example, many stakeholder groups have pressed for greater environmental stewardship by business. As with any social norm, firms engage in marketing practices that cover a broad spectrum of legitimacy, or those actions considered normatively desirable and appropriate (Suchman 1995). Marketing practices or behaviors that do not conform to normative expectations, therefore, deviate from ethical norms either by exceeding or falling short of them. So too with the environmental norms example, marketing practices have clearly deviated both negatively and positively in response. To illustrate, General Motors lags behind its competitors in the development and production of fuel-efficient and hybrid vehicles, and continues to heavily market fuel-inefficient sport utility vehicles. Conversely, automakers like Volkswagen and Toyota have been extolled for creating green technologies and for their promotion of clean and alternative energy sources (Engardio 2007). Accordingly, nonconforming marketing practices such as these exhibit a form of firm-level deviance that differentiates the firm either favorably or unfavorably in the eyes of stakeholders and other societal constituents. I advance extant theoretical conceptualizations (i.e., Warren 2003) to suggest that a deviance perspective informs the multiple adaptations available to firms for conforming (or perhaps choosing not to conform) with their marketing strategies and practices.

Scholars have argued that a bipolar depiction of deviance more appropriately characterizes organizational phenomena than one-sided frameworks that ignore what are essentially two sides of the same coin (Warren 2003). Specifically, in Warren's (2003) theoretical exposition of deviant behavior in firms she calls for a unified conceptualization of deviance that integrates both the positive and negative strains. She contends that simply identifying that a behavior departs from reference group norms does little to inform on the true value or nature of the behavior (p. 624). As such, I extend this research prescription by advancing a discussion of marketing practices and behaviors that depart from norms in both a positively and negatively deviant fashion. I articulate the conceptual foundations underpinning nonconformity decisions in marketing for both overconformity and underconformity, and theorize the role of deviance in our discussion below.

Adaptation to Norms

Nonconformity, or departures from normative prescriptions, is known as deviance (see Merton 1938; 1968). In the case of ethical expectations in marketing, most firms tend to conform to normative prescriptions held by their stakeholders even if illegitimate means for goal attainment are available. Apart from reasons of pure differentiation, escalations in normative expectations coupled with increasing restrictions on the possibility of their achievement likely make illegitimate means more attractive. Accordingly, Merton hypothesizes that as normative pressures build, the likelihood of deviant adaptation to those norms increases (1938; 1968). Deviant adaptations, such as inadequate testing of pharmaceutical safety in order to market drugs more quickly, involve unconventional response mechanisms that address institutional pressures in ways that do not conform to extant norms.

At the firm level in marketing, deviant adaptations are typically conceptualized as dark-side or unethical responses in the face of pressures to achieve culturally prescribed goals such as superior organizational performance as in the pharmaceutical example above. Advancements in this theoretical context, however, have begun to offer multidimensional and bipolar explanations for such unconventional and perhaps deviant responses to societal pressures (e.g., Spreitzer and Sonenshein 2004). Clearly, some departures from the norm are evaluated positively (Heckert 1998, Heckert and Heckert 2002). As a case in point, firms' overconforming behaviors and marketing practices are generally heralded for their ethically positive contributions, such as Kraft's preemptive reduction of their products' fat content and portion sizes in response to growing obesity concerns. Consistent with a multidimensional perspective of deviance, therefore, adaptations may be valued negatively or positively by important stakeholders demonstrating ethical underconformity or overconformity (Warren 2003).

The theoretical advancement of positive deviance, which augments the traditional perspective of negative deviance, allows a richer conceptualization of ethical adaptations and behaviors by firms. Whether positive or negative, our framework of ethical conformity in marketing considers deviant responses to norms purposeful firm behaviors, although this may not always be the case (e.g., a firm may be unaware of nonconforming actions by suppliers or individual employees). Indeed, I ground our perspective in the strategic choice literature that casts departures from conformity as vehicles of differentiation (i.e., Deephouse 1999). To further evaluate the underlying drivers of these deviant responses in marketing, I probe the role of the firm identity in ethical conformity. Firms' ethical conformity decisions, I argue, are a blend of institutional forces and the unique firm identity. Comprised of multiple facets (Gioia, Schultz, and Corley 2000), firm identity interplays with institutional concerns to influence firm response to societal norms in a potentially deviant fashion, for example Nike's monitoring and reporting of all its subcontractor activities in addition to its own.

The Role of Firm Identity

Identity involves all that is central, distinctive, and enduring about a firm (Albert and Whetten 1985). It is the combinative construal of firm culture, history, structure, characteristics, status and reputation with competitors, customers, stakeholders, and society at large (Brown, Dacin, Pratt, and Whetten 2006). Identities impose patterns on the underlying social codes comprising the core of the firm (Pólos, Hannan, and Carroll 2002). A firm's identity, moreover, is formulated and cemented over an extended period of time. Because it is comprised of both internal and self-reflective components as well as external construal of activities such as reputation and other external evaluations, identity provides a rich approach to understanding firm behavior (Gioia, Schultz, and Corley 2000).

According to institutional theory, firms morph to reflect core stakeholder preferences and values, as well as certain socially desirable characteristics of aspirational firms and competitors. Indeed, it has been shown that firms often engage in a degree of isomorphic behavior to attain legitimacy in the face of normative pressures (e.g., Grewal, Comer, and Mehta 2001, Grewal and Dharwadkar 2002; Suchman 1995). However, in response to institutional norms firms also draw largely from their unique identities and the more tangible manifestations of the identity such as structures, practices, and routines (Handelman 2006). Because each firm identity is comprised of a distinctive blend of culture, climate, firm history, and other internal and external influences, no two firm responses to institutional factors will be identical. Differentiated, programmatic responses to norms in light of institutional expectations become further ingrained in the firm identity through processes of habitualizing and imprinting (e.g., Grewal and Dharwadkar 2002).

The iterative cycles of firm response to institutional norms and the expectations of their stakeholders preserve core processes and structures, solidifying the unique firm identity

Identity is multifaceted in that it gives rise to a number of critical firm behaviors and strategic initiatives. It characterizes firm interactions with its stakeholders and it determines the nature of customer and competitor interactions. Projecting an identity requires consistency between the many facets comprising it, which may be present to varying degrees. For the purpose of our theoretical framework, firm identity requires consistency between marketing actions and organizational mission, as well as in all permutations of firm meanings, symbols, and values as conveyed through marketing communications (Simöes, Dibb, and Fisk 2005). For example, for firms like Unilever that have demonstrated a commitment to ethics (Engardio 2007), internal elements of identity and external image construal interplay to influence the unique formulation and implementation of marketing programs as well as the marketing messages and communications conveyed by the firm (Brown et al. 2006). It is these marketing activities and communication mechanisms and their resulting transient images that resonate with institutional actors and stakeholders, such as Unilever's Dove Brand and its "Campaign for Real Beauty" to promote healthy body images and build self-esteem among women.

Motivations for Ethical Conformity

Given that identity is a key driver of firm choices and decisions, likewise, the choice of ethical conformity is rooted in the firm's identity. As such, ethical overconformity as well as underconformity in marketing is an intentional and not incidental consequence of identity (Smith 1993). Firms are not likely to one day realize they possess larger than anticipated endowments of resources and subsequently pour those resources into more costly overconformity in the form of rigorous and overtly ethical marketing practices. For example, it is not likely that a more traditional automaker could easily or quickly shift from current production practices to a primary focus on green technologies and hybrid alternatives (e.g., Engardio 2007; Taylor et al. 2007). Only by dedicating resources over time to a cause that is embodied in the firm identity and aligned with stakeholder expectations might such a transformation succeed. Conversely, when faced with resource constraints, firms are not likely to suddenly underconform by failing to meet certain normative expectations in an effort to reduce costs or inflate short-term profits.

Similarly, on the one hand firms like Ben and Jerry's, Patagonia, and Green Mountain Coffee have demonstrated through their marketing practices that ethical values are a central and defining factor in their firm identity. On the other hand, as part of their identity some firms seem to test the limits of conformity with their marketing practices, such as Abercrombie and Fitch with their use of sexually suggestive advertising and racially insensitive logos featured on their clothing, for example (Murphy et al. 2005).

For firms valuing ethics in their identities, the internal value system and the construal of the image the firm seeks to project across all its constituencies demands attention to ethical standards inculcated across its activities in the market interface. These firms' messaging and marketing activities manifest this value and belief regarding the importance of ethics in the firm's culture and cognitive systems. In contrast, firms that respond to social norms in an ethically neutral or perhaps unethical fashion, necessarily lack a similar valuation of ethics in their identities. Our framework evaluates the condition of firm response to ethically charged social norms as deliberate strategic choice, regardless of whether the valuation of ethics in the firm identity is positive, negative, or neutral. From a strategic choice perspective, I cast both overconformity and underconformity as intentional outgrowths of the firm identity because that is how the firm sees itself, what the firm is, and what the firm seeks to project.

Apart from the unique valuation of ethics (or lack thereof) diffused through firm identity, additional concerns likely motivate ethical conformity decisions. I argue that the potential market response to ethical conformity drives firms' ethical decisions in certain circumstances. Specifically, firms may elect to overconform or underconform because they expect favorable performance outcomes as indicated by market trends or consumer preferences. In these situations, overconformity or underconformity can become a source of competitive advantage for firms. For example, a firm may see that a strong ethical stance increases the value of their offering in the marketplace. In this case, overconformity can be a result of lengthy and extensive marketing research aimed at better meeting and exceeding customer needs (Smith 1993). Similarly, underconformity decisions may evolve from firm efforts to gain advantages such as time savings (e.g., inadequate product testing) or reduction in various costs (e.g., inexpensive child labor in developing nations) associated with ethical practices. This behavior is not without consequences, however, as the potential for market disclosure has demonstrated devastating in recent corporate scandals (Brewer, Chandler, and Ferrell 2006).

CHAPTER 3

PAPER ONE

FIRM IDENTITY, NORMATIVE PRESSURES, AND ETHICAL OVERCONFORMITY: STRATEGIC IMPLICATIONS FOR MARKETING

Abstract

Society expects firms to respond to ethically charged issues through their marketing practices and other behaviors. As evidenced in the marketplace, firms respond to normative pressures along a continuum with their practices and behaviors. In the case of overconformity, firms exceed expectations by adopting marketing programs, activities, and behaviors that go above and beyond what society has determined is acceptable. This paper attempts to clarify the drivers, both theoretical and economic, that underpin ethically overconforming firm behaviors. I draw on powerful frameworks from economics and sociology, including institutional theory and deviance theory, to frame the questions. Institutional pressures, I suggest, function as a yardstick by which conformity to norms might be assessed. Institutions also serve to shape and mold the firm identity. I craft a game theoretic model, whereby firms compete on price and product differentiation through ethical attributes. Firm identity establishes the extent to which firms value ethics, and is modeled accordingly in the objective function. I contribute to the literature by buttressing traditional profit maximization objectives with considerations of ethics, reflecting numerous examples by ethically overconforming firms in the marketplace.

The Timberland Corporation, producer of footwear and apparel, has always emphasized the importance of environmental sustainability and community improvement. In early 2006, the firm took its role as a responsible citizen a step further by announcing a new shoebox labeling system analogous to a nutritional label on food products. The Timberland label, however, details where each element of the product was made, the conditions under which it was produced, and the overall impact of the product's manufacture on both the local community and the larger environment. A brand manager for the firm explains, "We want to create a broad awareness among consumers, so that perhaps eventually they will expect all manufacturers to rise up to this level of detail on how and where a product is made" (Raths 2006, p. 4).

A pioneer in environmentally friendly technologies for their washers and dryers, Whirlpool Corporation boasts top ranked products in both performance and efficiency. In addition, their products have been found to be some of the most durable. However, when asked about what makes the corporation so profitable, possessing an overwhelmingly loyal customer base, a Whirlpool managers claims, "There is a strong correlation between a company's performance in appliance markets and their social response to issues such as energy efficiency and pollution" (Raths 2006, p. 3). Whirlpool has enhanced its commitment to social responsibility by recently joining the Natural Step network, where sustainability experts examine every facet of a firm's inner workings to evaluate employee, community, and environmental among other ethical opportunities.

Green Mountain Coffee invests hundreds of thousands of dollars toward improving the lives of coffee growers, their families, and their communities. The firm lends financial support to a number of non-profits dedicated to a variety of causes to improve the larger coffee trade, *including the Rainforest Alliance and the FomCafe cooperative. The firm, what is more, remains highly profitable and enjoys sustained growth. Social responsibility is not a matter that Green Mountain takes lightly. Indeed, in 2006 the firm unveils its first corporate responsibility report, indexing economic and social impact metrics in order to better understand and focus efforts in those areas. Green Mountain guarantees a minimum price far above commodity prices for its fair trade certified coffee, justifying such actions through their sustained consumer demand. Accordingly, when queried about the swelling consumer interest in fair trade practices, CEO Bob Stiller reasons, "Through their purchases they are wanting to make a difference in the lives of growers"* (Raths 2006, p. 1), *Business Ethics Magazine*, 100 Best Corporate Citizens for 2006.

INTRODUCTION

Are firms like Timberland, Whirlpool, and Green Mountain adopting exceptionally rigorous ethical standards due to some intrinsic, philosophical purpose? Or do such practices simply make good business sense in today's more socially aware marketplace? I suspect that the answer is both. I argue that positive links between a firm's ethical practices and success in the marketplace are not limited to the above examples or to Patagonia and Ben and Jerry's, firms known to be driven by their ethical philosophies. Although firm ethical practices and competitive advantage may go hand in hand, the extant literature, while informing us on the philosophical questions associated with ethical decision making, offers little understanding about the compelling pragmatic issue of how ethics can drive performance. The literature that has attempted to address the link between corporate social initiatives and financial performance, moreover, has been equivocal at best (Burke and Logsdon 1996). This is surprising given that ethical decision making in the corporate world often necessarily may be less about the intangible, philosophical concerns and more about the costs, benefits, and strategic implications associated with ethics as a marketing initiative. As such, in this paper I advance a decidedly economic agenda for understanding firm motivations for and the impact of ethical decision making related to marketing. Specifically, I investigate ethical *overconformity*, the adoption of marketing programs, activities and behaviors that go above and beyond what society deems acceptable in terms of ethical marketing practices.

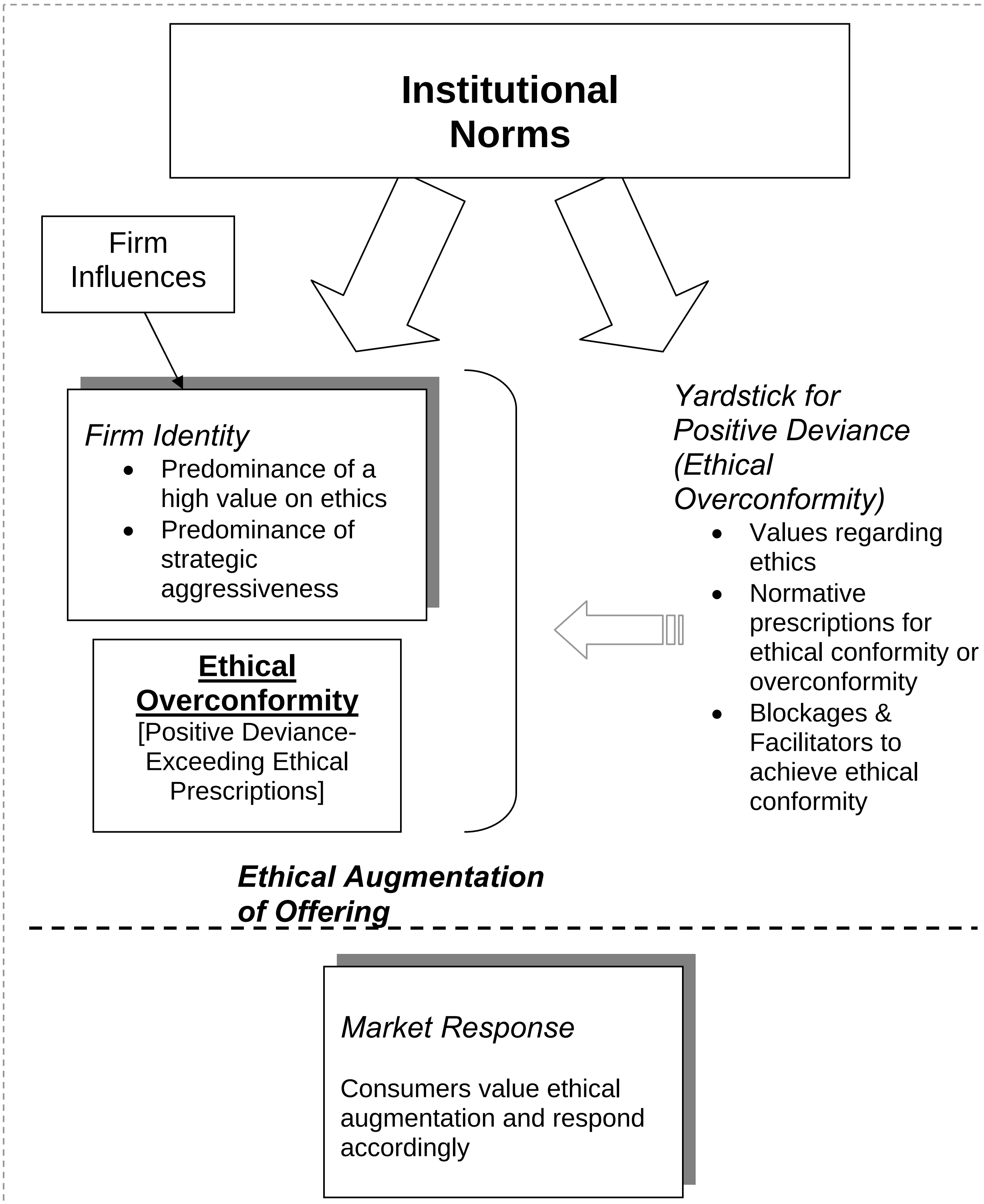
Firms derive guidance for ethical decision making and behavior from various normative pressures or collective expectations of society (e.g., Brewer, Chandler, and Ferrell 2006; Dunfee Smith, and Ross 1999; Grewal and Dharwadkar 2002). In response to these normative guidelines, firms may elect to simply conform, i.e., just meet societal expectations in their marketing activities. However, as noted, a growing contingent of firms has demonstrated marked overconformity to norms by exceeding ethical standards. For some of these firms, ethical overconformity permeates their reason for being and is ingrained in their corporate identity. Importantly, the success of these firms indicates that consumers respond positively, apparently attaching more value to an overconforming firm's offerings, *ceteris paribus*. In a very real sense, this increased value derived from overconformity can be considered a form of product augmentation. Thus, for some firms, it seems that overconformity could be attractive because the resulting ethical augmentation is a source of differentiation and garners a positive market response. This gives rise to the important and compelling questions: what are the factors, both theoretical and economic, that drive firms to ethically overconform? What factors, theoretically and economically, separate ethically overconforming firms from conforming firms? The literature has demonstrated that firms often aim to maximize objectives apart from strategic advantage (e.g., Scott Morton and Podolny 2002). I explore that possibility here where firm objectives balance ethics and performance.

To probe these research questions, I draw upon powerful theoretical frameworks evolving from economics and sociological theory. Institutional theory, specifically, informs us regarding the nature and the variety of normative societal pressures which require some ethical response by firms, typically ranging from conforming to overconforming marketing behaviors. I draw on deviance theory to understand overconformity with the promising theoretical advancement of positive deviance, in particular, allowing a richer conceptualization of ethical responses by firms. Grounded in these influential frameworks, I take a novel game theoretic approach to extend marketing and ethics research and to appreciate the multifaceted role of corporate identity in effectuating ethical behaviors.

We structure the paper by first setting the stage conceptually with the theoretical background that will frame the questions and, ultimately, inform my model. A visual representation of this framework is featured in Figure 3.1. I appeal to theory from economics and sociology to integrate the explanatory model in the context of marketing ethics. Specifically, the analysis demonstrates the role of external institutional pressures and how those interplay within the firm to determine the organization's response as conveyed through ethical conformity decisions. Following this discussion, I set forth the assumptions that will ground the parameters of the model, which evolve from fundamental marketing principles and economic theory. Subsequently, I present the game theoretic model that addresses the research questions and demonstrates the conditions surrounding overconformity decisions in marketing ethics. Finally, I conclude by illuminating paths for future research and suggest means by which the questions could be tested empirically.

FIGURE 3.1

Conceptual Depiction of Ethical Overconformity



CONCEPTUAL BACKGROUND

Setting the Stage for Ethical Conformity: Normative Pressures

Ethics, by definition, blur the lines between acceptability and illegality. Society's ethical expectations and mandates evolve apart from formalized ethical regulatory mechanisms. In some situations and applications, laws and regulations governing firm activities and behaviors have ensued from the social pressures and expectations (e.g., Murphy et al. 2005). Over time, appropriate regulatory responses to remedy certain ethical issues have emerged basically because, in these cases, an overwhelming majority of various stakeholders typically demand such formalized actions be implemented. However, many marketing activities remain within the blurred area just shy of demanding explicit regulation but not palatable and acceptable to society. Thus, fundamental influences shaping marketing ethics have derived from particularly institutional factors.

"Institutions include any form of constraint that human beings devise to shape human interaction" and encompass "both what individuals are prohibited from doing and, sometimes, under what conditions some individuals are permitted to undertake certain activities," (North 1990, p. 4). Because formal laws and sanctions govern such a limited, albeit important, share of a firm's interactions and behaviors, codes of ethics, behavioral codifications, norms and other conventions play a critical role in any ethical analyses, including the case of ethical marketing activities, programs, and behaviors by the firm. Indeed the normative prescriptions of firm interactions and behaviors perhaps weigh even more heavily as a concern on firms competing in industries where regulation is minimal, for example. The normative pressures to which I refer extend far beyond the compartmentalized considerations from within the firm's task environment stemming from buyers, suppliers, customers, or competitors for example (e.g., Grewal and

Dharwadkar 2002). Pressures evolving from the institutional environment are dispersed throughout the gamut of stakeholder groups suggesting that a firm's behaviors and activities concern not only consumers and users of its products, but also society as a whole. Because of the scope and magnitude of their impact, this study is concerned with these overarching social forces held by all stakeholder groups within the institutional environment demanding firm attention (DiMaggio and Powell 1983).

Burgeoning social concerns evolving from the external environment manifest themselves as ethical pressures, and often impact the firm quite dramatically (North 1993). Indeed, as societal expectations of responsible and ethical business practice shift, firms will face new pressures. As shifting social concerns press upon firms they will be forced either to adapt or, alternatively, to endure public disapproval, negative impacts on stock value, or perhaps even eventually should the problems be chronic and the situation appropriate, regulatory sanctions. As such, firms typically formulate policies, alter practices, and transform organizational structures in response to societal expectations, as a way of demonstrating legitimacy (Davis and Marquis 2005; Paine, Deshpandé, Margolis, and Bettcher 2005). Institutional theory advises that a firm's stakeholders, and ultimately the market, acknowledge and approve of the firm response to the extent that the policies and practices are consistent with prevailing institutional logics (Zajac and Westphal 2004).

Legitimacy is the "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norm, values, beliefs, and definitions" (Suchman 1995, p. 574). Keeping abreast of social norms and ethical concerns, and subsequently responding in an appropriate fashion is challenging for firms to say the least (e.g., Dunfee, Smith, and Ross 1999). Furthermore, the institutional environment controls valuable and scarce resources on which the firm depends (Scott 1991). Failure to meet societal expectations or an inability to attain legitimacy often necessitates that institutional constituencies withhold resources critical to the firm's survival (Brewer, Chandler, and Ferrell 2006). Restricted access to such resources can prove detrimental or, quite possibly, fatal to a firm. Perhaps best situated to anticipate and facilitate socially normative responses to ethical challenges, however, is the marketing function in the firm. Because they are the key interface, serving as the most conspicuous link between customers and the firm, marketing programs and activities allow timely, appropriate, and powerful responses to normative pressures meeting the ethical demands of customers and society in general (e.g., Dunfee, Smith, and Ross 1999). Research suggests that firms most closely linked with their customers are more likely to put forth legitimated efforts in response to ethical mandates (Arora and Cason 1995).

Firm decisions to overconform to normative pressures represent a response mechanism to the institutional environment. Indeed, voluntary overconformity may exemplify a firm's efforts to attain legitimacy given the social forces impinging upon it. Simply conforming to ethical stipulations as a result of such pressures may not represent an adequate effort, as perceived by the firm, to meet normative challenges and concerns. As such, firms may extend their efforts above and beyond what is implied to be proper to ensure that all stakeholder groups will not only perceive their actions to be legitimate, but will acknowledge the degree to which they exceed what is implied to be proper. Ethical overconformity, in this sense, may be conceptualized as a form of firm-level deviance that is viewed favorably. Below, I elaborate this discussion to consider explicitly the theoretical foundations of positive deviance, which I propose drives overconforming behavior. A positive deviance perspective, furthermore, informs the multiple motivations underlying firms' decisions to overconform through its marketing strategies and practices.

Firm-Level Deviance: Positive and Negative

Sociological theory has offered a number of explanatory frameworks underpinning the various responses to normative pressures by individuals and organizations. One prominent and influential framework involves anomie theory, which theorizes patterns of adaptation in response to the incongruities and pressures evolving from the institutional context. Noteworthy sociologist Robert Merton (1938; 1968), in particular, specified forms of adaptation available to cope with anomie. Merton's typology of adaptation modes focuses on the acceptance of cultural goals and the choice of a legitimate or deviant means to achieve the goals (Merton 1938; 1968). According to the Mertonian typology, most entities, in this case the firm and its marketing function, react to pressures in the institutional environment by conforming with behavior that is expected and proper. In anomie theory, departures from normative prescriptions, that is nonconformity, is known as deviance. Although, in the case of ethical pressures in marketing, most firms tend to conform to normative prescriptions perhaps even if illegitimate means for goal attainment are available. However, escalations in normative expectations and ethical stipulations implied by institutional constraints coupled with increasing restrictions on the possibility of their achievement through legitimate means can provoke anomie. Accordingly, Merton hypothesizes that as normative pressures build deviant adaptation escalates. Deviant adaptations involve unconventional response mechanisms that address institutional pressures in ways that do not conform to extant norms.

Advancements in this theoretical context have begun to offer multidimensional and bipolar explanations for such unconventional and perhaps deviant responses to everyday societal pressures (e.g., Johnson and Cullen 2006). In early seminal advancements by Merton, anomie theory and the various means-ends adaptations focused on the negative side of deviance, where unethical behavior is purported to run rampant. Merton's deviance theory is widely applied in understanding crime. At the firm level in marketing, deviant adaptations are typically conceptualized as dark-side or unethical responses in the face of pressure to achieve culturally prescribed goals such as superior organizational performance. Recent theoretical developments on deviance have incorporated a reactivist perspective regarding deviant adaptations or strategies used by society's members for goal achievement. This means that the deviance, while still involving unusual or different activities or behavior, is evaluated in terms of the reaction or response of the relevant collective unit that is the reference group. The social reactions and evaluations of an audience play a role in what the deviance means. Historically, perspectives on anomie assumed a general society-wide audience where the evaluation of deviance was negative, hence the noted focus on crime. Clearly some departures from the norm, however, are evaluated positively by some audiences, and sometimes even perhaps by the general, society-wide audience (Heckert 1998; Heckert and Heckert 2002; 2004). Overconforming ethical behaviors and activities conducted by firms, in particular, would exemplify such a case. Grounded in these theoretical notions, I propose that ethical overconformity by a firm constitutes adaptation to normative pressures that is valued positively by most members of society.

The introduction of an evaluative component for deviant means to achieve accepted ends has led to the theoretical perspective of positive deviance (Ben-Yehuda 1990; Goode 1991). Positive deviance is intentional behavior that departs from collective norms in an honorable way that is viewed positively independent of outcomes, for example, helping a coworker (e.g., Spreitzer and Sonenshein 2003). Although positive deviance continues to grow and burgeon in this domain, its theoretical ancestry traces back to the foundational premises of Merton's work. Early theorists extending the Mertonian typology of deviant adaptations to anomie and normative pressures (Durbin 1959; Harary 1966) continued to focus on negative deviance particularly to understand crime (Adler and Adler 2000). However, relating to the later theoretical advances on positive deviance, Durbin's (1959) extension of the Mertonian perspective on innovation, hinted at a the possibility of positive deviance mechanisms in the anomie theory.

The takeaway, for the purpose of the model of ethical overconformity in a firm's marketing activities, is that deviance deriving from anomic conditions and institutional normative pressures can be often positively evaluated nonstandard means to achieve valued ends. This in turn points to the theoretically compelling notion that statically deviant yet valued activities such as ethical overconformity might also be explained, at least in part, by the existence of anomic conditions and as a concerted and formulated response to normative pressures inherent in a society.

Although the multiple negative outcomes from deviance as a result of anomie have received attention in the literature, I concur that attention in an effort to scrutinize the positive outcomes resulting from deviance, such as entrepreneurial innovation (e.g., Johnson and Cullen 2006), warrant serious consideration (Fineman 2006; Roberts 2006). Because I investigate ethical behaviors that positively surpass societal expectations, a theoretical explanation grounded in notions of positive deviance provides uniquely appropriate insights into the research objectives. Across the corporate landscape one may witness firms that choose to deviate positively from normative expectations by employing admirably overconforming ethical marketing practices.

Positive deviance is a purposeful response exhibited by the firm. Thus, to better evaluate the underlying drivers of such a response, I probe the role of the corporate identity in ethical overconformity. This examination extends previous research, which suggests that reputational concerns motivate ethical behavior. I argue, in contrast, that reputation provides too narrow a perspective for understanding ethical overconformity as a strategic initiative by the firm. Accordingly, I suggest a holistic approach looking to the greater corporate identity as a more appropriate theoretical tool for understanding ethical behavior. Both the internal and external facets of corporate identity, I argue, motivate a firm to respond in a positively deviant fashion to societal norms. I stipulate that ethical overconformity decisions by a firm are a direct function of the corporate identity. Ultimately, I propose, investigating the internal and external components of corporate identity provide a more accurate perspective of ethical decision making in marketing.

The Role of Firm Identity

Typically, firm reputation has been the variable of interest in research involving adherence to formal rule structures or informal prescriptions (e.g., Banks, Hutchinson, and Meyer 2002). Although useful for some questions, reputation is limiting in that it involves external evaluations by third parties neglecting an array of factors both internal and external (Whetten and Godfrey 1998). Thus, because it is comprised of both internal and self-reflective components as well as external construal of activities, for the research question I rely on the notion of organizational identity. Organizational identity, as such, provides a richer perspective about firm behavior with normative implications than one-sided reputational frameworks (Gioia, Schultz, and Corley 2000).

Identity involves all that is central, distinctive, and enduring about a firm (Albert and Whetten 1985). In understanding identity, firms must not only ask themselves who they are, but also who they would like to be. Identity does not rest with any individuals or set of individuals either externally or internally but instead derives from a combination of objectively held realities residing in both (Scott and Lane 2000). It is the combinative construal of firm culture, history, structure, characteristics, status and reputation with competitors, customers, and society at large. Identities impose patterns on the underlying social codes comprising the core of the firm (Pólos, Hannan, and Carroll 2002). Importantly, a firm's identity is formulated and cemented over some time.

Just as individuals learn to assign themselves socially constructed labels through personal and symbolic interactions with important others, so too do firms develop and subsequently project such an identity (Albert 1998). Hearkening to the original formulations of social identity theory, firm identity is fundamentally both a relational and a comparative concept (Tajfel and Turner 1985). Firm identity in general, and particularly in the instances where ethical conformity in marketing is involved, stipulate conditions that require managers to maintain a balance between their individuality and distinctiveness as a firm with relational similarities and comparisons to desirable and aspirational firms.

According to institutional theory, firms morph to reflect institutional preferences and other socially desirable characteristics of competitors and other constituencies that they observe in the marketplace. As such, firms often engage in a degree of isomorphic behavior to attain legitimacy in the face of normative pressures (e.g., Grewal, Comer, and Mehta 2001; Grewal and Dharwadkar 2002). Indeed, in response to social norms, firms fashion components of their identities such as structures, practices, and routines, toward those that are viewed favorably by various institutions. Through this process of habitualizing, imprinting in particular, programmatic responses to norms in light of institutional expectations become ingrained in firm identity, preserving core processes and structures and serving to formulate and cement firm identity (e.g., Grewal and Dharwadkar 2002).

Identity is multifaceted in that it gives rise to a number of critical firm behaviors and strategic initiatives. It characterizes firm interactions with its stakeholders and it determines the nature of customer and competitor interactions. Projecting an identity requires consistency between the many facets comprising it, which may be present to varying degrees. Firm identity requires consistency between marketing actions and organizational mission, as well as in all permutations of firm meanings, symbols, and values as conveyed through marketing communications (Simöes, Dibb, and Fisk 2005). Internal elements of identity and external image construal interplay to influence the formulation and implementation of marketing programs as well as the marketing messages and communications conveyed by the firm. It is these marketing activities and communication mechanisms and their resulting transient images that resonate with institutional actors and stakeholders.

Motivations for Ethical Overconformity

The notion of ethical conformity by a firm to informal external stipulations is central to understanding marketing ethics in general. Because so many marketing practices blur the lines between legality and simply poor taste, imposing sanctions and other restrictions to firms exhibiting bad behavior is difficult at best for policy makers and regulators. Whenever a firm exactly meets the institutional normative pressures it faces, conformity prevails. Any departure from just meeting the normative expectations, however, constitutes a deviant response, either positive or negative in valence (Johnson and Cullen 2006). Of particular concern to us are positively deviant adaptations, exceeding normative prescriptions for ethical behavior in marketing practice, i.e., overconformity.

Given that identity is a key driver of firm choices and decisions, likewise, the choice of ethical overconformity is rooted in the firm's identity. As such, ethical overconformity in marketing is an intentional and not incidental consequence of identity (e.g., Smith 1993). Firms are not likely to one day realize they possess larger than anticipated endowments of resources, for example, and subsequently pour those resources into more costly overconformity in the form of rigorous and overtly ethical marketing practices. For some firms, such as Ben and Jerry's or Patagonia and as I note an increasing contingent of others, ethics are a defining factor in their firm identity. The firm's internal value system and the construal of the image it seeks to project across all its constituencies demands that higher than normal ethical standards inculcate all its activities in the market interface. The firm's messaging and marketing activities manifest this value and belief regarding the importance of ethics in the firm's culture and cognitive systems. Overconformity is the purposive choice because that is how the firm sees itself, what the firm is, and what the firm seeks to project.

In contrast to valuing ethics intrinsically, however, the drive for strategic advantage, market dominance, and performance concerns may predominate in a firm's identity (e.g., Hamel and Prahalad 1989; 1994). Firms may elect to overconform because it is a direct source of competitive advantage. A firm may see that a strong ethical stance increases the value of their offering in the marketplace. Other things being equal, consumers attach more value to the offering of a firm that overconforms to expectations regarding ethical conduct in the development and testing of products, in the fabrication of products, in product communication, pricing, promotions and distribution and any other marketing activities. Through its overconformity the firm ethically augments its product. In this case, overconformity is a result of lengthy and extensive marketing research aimed at better meeting and exceeding customer needs (Smith 1993). It further requires careful planning for extensive development expenditures to reformulate products, redesign production processes, and craft promotion strategies. Because of the substantial investments required by such decisions, it is necessary to understand the driving factors behind firms' allocation of scarce resources to ethical efforts. In spite of the financial demands required to execute ethical overconformity, the firm may realize a host of desirable outcomes, in particular, positive market response, competitive advantage, and long-term profitability.

Regardless of whether a firm's ethical overconformity is motivated by an intrinsic valuation of ethics in the firm's identity, or a predominance of strategic aggressiveness in the firm's identity, consumers attend to signals and seek information regarding a firm's ethical behavior. Increasingly, relevant information about firm ethical behavior is becoming public (Brewer, Chandler, and Ferrell 2006; Paine et al. 2005), particularly in light of the multiple ethical failures that have swept the corporate landscape so dramatically. In subsequent sections I formally specify the assumptions that set the parameters of my model and then continue with the development of the model of ethical overconformity.

MODEL ASSUMPTIONS

We set forth a number of assumptions that allow us to depict a firm's decisions to engage in overconforming ethical marketing practices, as well as customer reactions to such practices. As described earlier in the paper, all the behaviors and practices involving a product with some ethical connotation are encompassed in my definition of the product's ethical augmentation.

Indeed, marketers may ethically augment their offerings through socially conscious production processes, through marketing communications promoting ethical causes, or perhaps through strategic partnerships with ethical organizations, to name only a few ways in which a product may be ethically augmented. I consider ethical augmentation to be a natural consequence of ethical overconformity by firms, and this extension allows us to frame the marketing activities and customer responses advanced in the model. Overconformity can span the full range of marketing activities from front end product inputs to customer interface. Thus an overconforming firm may exceed ethical behavior expectations in front end marketing activities such as those involving product development, testing, content, and fabrication. Likewise the overconformer may exceed expectations in its customer interface activities such as marketing communications, promotions, advertising, distribution, and pricing. In contrast to overconforming firms, conforming firms are those that consistently just meet the standards or acceptable level of ethical behaviors across the range of front end marketing activities and customer interface. In the case of conforming firms, normative expectations are neither subverted nor exceeded.

Consistent with marketing ethics frameworks (e.g., Smith 1993), I suggest that firms more closely connected to their customers, or those firms adopting a more pronounced customer orientation, ultimately, will be more responsive to ethical considerations of both customers and society as a whole. However, it is important to clarify the assumption that in ethical overconformity, the firm will incur costs. Whether conforming or overconforming, a firm's approach to ethical behaviors across the range of front end activities and customer interface evolves to a large extent from its organizational identity. Not only does identity evolve from internal agreement about what is central, distinctive, and enduring with regard to a firm's character (Albert and Whetten 1985), but it is also facilitated by reputational effects that interplay into this conceptualization (Gioia, Schultz, and Corley 2000). Although internal and external components are involved in identity, overconforming firms will want to leverage their overconformity externally.

The external leveraging of a firm's overconformity points to the criticality of the assumption of information availability regarding overconforming behaviors. Essentially, I assume that overconforming ethical actions will be known to customers because firms strive to make that information known which reflects marketplace realities. While the motives for overconformity may vary, as I demonstrate later in the paper, an overconforming firm has every incentive to diffuse information of its ethical augmentation in the marketplace. This is because it is a source of differentiation from firms that merely conform and thus a source competitive advantage. These assumptions are particularly relevant due to the fact that information about ethical augmentation is increasingly available to customers. Although some customers may not seek this information (Ehrich and Irwin 2005), I contend that increasingly prominent segments of customers make purchase decisions motivated by considerations of ethical augmentation (Shapiro and Rabinowitz 2000).

Another important implication of this assumption is that, with regard to many of the ethically questionable practices demonstrated in the marketplace, the availability of information serves as an informal but powerful regulatory mechanism in the market (Konar and Cohen 1997). In contrast to situations and domains (e.g., pollution) where formal regulations or laws control the behavior and activities of firms, marketing ethics are more subtle and nuanced. In many instances the lines between immoral, unethical, and illegal marketing activities are blurred.

As opposed to laws and regulations, information availability is the genesis of norms that govern and limit a firm's marketing activities with regard to ethical conformity.

The normative pressures and behavioral checks that derive from information dissemination are manifest in a number of ways. For example, constituency groups' awareness of objectionable ethical practices committed by a firm may cause those groups to leverage certain pressures and powers against that firm. Konar and Cohen (1997) propose that consumers, community groups, and investors who are concerned with ethical practices in the marketplace may wield investment decisions accordingly with regard to a firm's behavior. Indeed, undesirable information about a firm's ethical behavior may cause "consumers to adjust their purchase decisions, community groups to pressure firms to behave more ethically, beyond what is specifically required by the law, or investors to change their portfolios" (Konar and Cohen 1997, p. 110). As information is increasingly available in a widespread and instantaneous fashion, firms have an incentive to behave ethically or face negative exposure. Other less formal response mechanisms that serve as threats to unethical marketing actions include boycotts and other forms of customer retaliation (e.g., Grégoire and Fisher 2006).

From an individual perspective, evidence suggests that customers will choose ethically augmented products opposed to those that are not and, *ceteris paribus*, willingly pay higher prices for such products (Shapiro and Rabinowitz 2000). However, one must also assume that income constraints will not allow all customers to purchase the ethically augmented product if it is too costly. Accordingly, a natural mechanism by which to segment the market for ethically augmented products may be the ability and willingness to pay for such items. I derive the relevant utility function for customer purchase decisions based on the assumption that utility is ultimately garnered not only from benefits traditionally offered by the product, but also from the ethical attributes associated with it. It follows then that ethical conformity may generate identical ethical marketing practices and result in offerings that may appear similar to customers. In other words, conforming firms do not benefit from the differentiation that ethical augmentation offers (Lundgren 2002).

THE MODEL

We draw on work in the economics literature (Arora and Gangopadhyay 1995, Boom 1995) as a starting point to model the strategic implications of the firm's ethical marketing behavior. However, as a significant divergence from treatments of compliance, I focus on conformity versus overconformity to normative expectations and explicitly model the complex phenomenon of organizational identity. Specifically I frame the firm's optimization problem so that ethical augmentation is a direct argument that increases the firm's objective function.

We consider a homogenous good or service, x. In accordance with the theoretical development, I assume ethical augmentation applies to the product at a level of $\bar{e} > 0$. To address these concerns, the firm considers the individual ethical implications of both the front end product inputs (I) and customer interface (O) of their goods or services. As such, I assume that a firm's overall efforts aimed at ethical augmentation (e) are comprised of both relevant front end product inputs and customer interface activities ($I + O = e$), which will compensate for the potentially negative ethical implications that could be associated with the product ($\bar{e} - e$). The more ethical augmentation a firm invests toward the product, or the greater e, the more ethically overconforming firm's marketing practices can be categorized. I let $C(\bar{e} - e) \equiv c(e)$ represent the costs of firm ethical augmentation efforts. In addition, for the sake of simplicity, I assume the costs associated with ethical augmentation are fixed. I assume that costs are increasing and convex in ethical augmentation and $c(0) = 0$.

Because of the properties or characteristics of the firm's identity, the costs associated with ethical augmentation, however, will be offset for those firms who receive intrinsic rewards from knowing their behaviors and practices contribute to a greater good or cause, facilitating social well-being. As such it is necessary to incorporate a consideration of altruistic or intrinsically motivated ethical behavior into the objective function of the firm supplementing a consideration of profit maximization. Motivations for ethical conformity as well as the resulting profit functions are discussed in later phases of the model development.

Our game theoretic model considers the research questions regarding overconformity in the form of a duopoly, wherein two firms partake in a game where each of them 1) formulates its response to institutional pressures as determined by its identity, allowing it to choose the level of ethical augmentation associated with the product by considering both front end inputs and customer interface activities. The marketplace evaluates this response based on some preexisting notions of firm ethical performance of what constitutes a desirable response. Subsequently, each firm 2) competes on the ethical attributes as well as price to determine firm profit.

As specified in the assumptions, the individual customer derives utility from the ethical augmentation of the product (e.g., Kotchen 2005). For the sake of simplicity, I assume the good or service differs only in its affiliated ethical augmentation and is homogenous with other goods and services in all other respects. This assumption follows naturally, especially when one considers the intangibility of many of the ethical decisions and practices employed by the marketing function of the firm. In the model I specify ethical augmentation as the sum of the front end product inputs and customer interface marketing activities with ethical connotations that are subsumed in the ultimate product offering. I assume that the ethical behaviors associated with customer interfacing will be more visible to the population of customers than ethical behaviors associated with front end product inputs of which the customer may or may not be aware.

We derive the relevant customer utility function for ethically augmented goods as determined by the price of the goods and customer wealth. In the case of ethically augmented goods, however, utility may not simply be expressed as a simple function of goods consumed. Indeed, I argue that an indirect utility function most appropriately characterizes the customer utility for ethically augmented goods. For ethically augmented goods, I propose that most customers would desire to purchase the ethically augmented products if they are financially capable of doing so. As such, both the levels of customer wealth and the price of the goods determine the utility function. To derive the indirect utility I employ Roy's Identity where a customer has an ideal amount of a good to minimize the price of obtaining certain levels of utility. I consider both the good itself x, and customer wealth w, or the financial resources which must be expended financially in order to acquire the product and customer willingness to pay for the product θ, based on the degree to which they value ethical augmentation. As discussed above, customers prefer products with increased levels of ethical augmentation, and derive utility from knowing their consumption behavior has contributed to ethical causes and affiliations. Customers vary, however, in their ability to purchase such products as their personal wealth endowments differ. Accordingly, based on these considerations I offer the following indirect utility function for customers:

$$V(w,\theta,p,e) = w + e - \frac{p}{\theta(w)}, \tag{3.1}$$

where p is the price of the product, e is the level of ethical augmentation by the firm that is affiliated with the product x, and $\frac{1}{\theta(w)}$ is the marginal utility of customer wealth.

Because I assume that every customer would prefer the more ethically augmented product, the overall ethical performance varies between firms because customers' choice to support the more ethical products depends on the customer's endowment of wealth. In other words, I do not experience a majority of overconforming ethical firms and practices because, in large measure, the tradeoff in terms of foregone other goods is too large for such products with the extra costs of ethical augmentation attached. In addition, I assume that customers' perceptions of the ethicality of the firm's products are derived for the most part from the customer interface component of the overall ethical augmentation. The ethical behaviors associated with front end product inputs provide utility similarly to the manner in which the ethicality of the customer interface activities of a product does. However, unless a customer has unique insight into company practices or procedures, he or she is most likely not privy to details of firm's front end product inputs and the degree to which they are ethically sound. For example, a customer must rely on company advertising or package labeling to determine whether his or her coffee is fairly traded, as he or she most likely cannot monitor the conditions of trade in the locations where the coffee is grown and subsequently distributed.

Consistent with Mussa and Rosen (1978) and Arora and Gangopadhyay (1995), I cast the maximization of utility in this scenario as analogous to maximizing surplus that would accrue due to purchasing a unit of x, given by $e - \frac{p}{\theta(w)}$. As such, I focus my analysis on a customer purchasing a unit of x from a firm that has ethically augmented its product at a level e and subsequently charges a price p. The gain in utility is symbolized by e, whereas the loss in utility is determined by the price paid, p, or the amount of customer financial resources that were expended to acquire the product. The loss of utility, it follows, can be considered as p times the marginal utility of wealth at $\frac{1}{\theta(w)}$.

The overall gain in net utility is represented as $e - \frac{p}{\theta(w)}$. Necessarily, p is only a positive value in the instance that $e > 0$. As customers' endowments of wealth are depleted, p must subsequently increase in value to the consumer. Economic theory postulates that customer wealth will be related inversely to the differing marginal utility of such financial resources. I presume w, or customer wealth, is uniformly distributed $[\underline{w}, \overline{w}]$, which implies that θ is uniformly distributed over $[\underline{\theta}, \overline{\theta}]$ where $\underline{\theta} = \theta(\underline{w})$ and $\overline{\theta} = \theta(\overline{w})$. The marginal utility stemming from the ethical augmentation associated with a product, however, varies for different customers for a given e and p, due to the marginal utility of customer wealth.

We assume each firm's market share is comprised of the customers purchasing products from that firm and that customers are characterized by their marginal utility of income. Accordingly, let $S_i(\theta)$ be the surplus that is generated to a consumer with marginal utility of income when it buys from firm i, $i = 1, 2$. Let Θ_i consist of the share of customers purchasing products from firm i. To maintain consistency, I assume $e_1 > e_2$ or rather firm 1 is the ethically overconforming firm while firm 2 is the conforming firm. As such,

$$S_i(\theta) = e_i - \frac{p_i}{\theta}, i = 1,2 \tag{3.2}$$

$$\Theta_1 = \{\theta / S_1 > S_2 \text{ and } S_1 \geq 0\} \tag{3.3}$$

$$\Theta_2 = \{\theta / S_2 > S_1 \text{ and } S_2 \geq 0\}. \tag{3.4}$$

We model the market share of the firm i, μ_i, with the following

$$\mu_i \equiv \int_{\Theta i} dF(\theta), \tag{3.5}$$

where F(θ) represents the distribution function of θ.

The surplus functions from the consumption of the ethically augmented products from each firm is derived in consideration of the levels of wealth endowment among various customer groups. For customer group Θ_2 the interval is denoted [θ_2 , θ_1] and for customer group Θ_1 one may understand the interval to range [θ_1 , $\overline{\theta}$]. For the customers that fall in the range of θ_2 to θ_1 the net surplus that exists will be greater for firm 2. Ultimately, between θ_1 and the upper bound of the model, everyone consumes the greater ethically augmented product. Each θ is derived from a unique level of customer wealth. Following economics research on compliance with regulations, I segment the market according to customer willingness to pay for the more ethically augmented product which, again, is determined largely by the level of customer wealth endowment. Because θ_i for i = 1, 2 is a function of p_i and e_i, I derive θ_2 by setting $e_2 - \frac{p_2}{\theta}$ equal to zero, and θ_1 is derived by considering $e_1 - \frac{p_1}{\theta_1} = e_2 - \frac{p_2}{\theta_1}$.[1] As a result

$$\theta_1 = \frac{p_1 - p_2}{e_1 - e_2} \tag{3.6}$$

$$\theta_2 = \frac{p_2}{e_2}. \tag{3.7}$$

The firms in the analysis play a two-stage game. In this model, the firms compete on price and ethical augmentation. As such, it will be a Nash equilibrium for the firms to invest in ethical augmentation if it maximizes their objective functions, which may include both profits and organizational identity, as discussed earlier.

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[1] See Arora and Gangopadhyay (1995) for a proof that this "covered market" is the only case to consider.

Firm Objectives: Profits and Ethical Valuation

As noted earlier, organizational identity plays a central role in the model. Specifically, I modify the usual firm objective, so that ethical augmentation is a direct argument that increases the firm's objective function. Research has shown that firms are not always pure profit maximizers (e.g., Scott Morton and Podolny 2002). The utility from producing a high quality product may motivate managerial decision makers more strongly than obtaining the highest profits. The general consensus in the marketing ethics literature supports this notion (e.g., Murphy et al. 2005) that firms consider and value ethics in the design and manufacture of their products. Indeed many actually do, often forsaking some potential profits. Consider the case in which Merck developed a cure for river blindness and, knowing those most in need could not afford to pay the price that Merck would have to charge to recuperate costs, distributed drug for free at a substantial loss (Rehbein, Waddock, and Graves 2004). Given the evidence that firms consider more that just profit in maximizing their objectives, I continue with the analysis accordingly.

The objective function to be maximized by each firm is symbolized with ψ_i and will be directly affected by the ethical augmentation e_i the firm chooses to affiliate with its product offering and the profit.

$$\psi_i = \alpha_i \eta(e_i) + \pi_i\left(e_i, e_j\right) \tag{3.8}$$

where α is a parameter that varies across firms and represents the degree to which specific firms value ethical augmentation. In the case of purely profit maximizing firms this term would equal zero. The function $\eta(e_i)$ is increasing and concave in e. The function π_i depicts the profit function for firm i.

Choice of Prices

In the first stage of the game, firms choose the level of ethical augmentation and in the second stage, firms choose prices. To obtain sub-game perfection, I solve the second stage first. Firm *i*'s profits in the second stage for the given choices of e_1 and e_2, is then

$$\pi_1 = p_1 \int_{\theta_1}^{\bar{\theta}} dF(\theta) \tag{3.9}$$

$$\pi_2 = p_2 \int_{\theta_2}^{\theta_1} dF(\theta). \tag{3.10}$$

We define the relevant market segment in terms of the range $R \equiv [\bar{\theta} - \underline{\theta}]$, where R represents the entire range of customers across the various levels of theta, which is based on ethical preferences given wealth. Since, by assumption, θ is uniformly distributed over $[\underline{\theta}, \bar{\theta}]$,

$$\pi_1 = \frac{p_1}{R(e_1 - e_2)}\left[\bar{\theta}(e_1 - e_2) - p_1 + p_2\right] \tag{3.11}$$

$$\pi_2 = \frac{p_2(p_1 e_2 - p_2 e_1)}{R(e_1 - e_2)e_2}. \tag{3.12}$$

By differentiating the firm objective functions with respect to price, I consider p_1 and p_2 respectively, and set each equal to zero. By solving for the equilibrium in the second stage of the game, given the ethical augmentation employed by each firm assuming $e_1 > e_2$, I find that

$$p_1 = \frac{2\bar{\theta}(e_1 - e_2)e_1}{(4e_1 - e_2)} \tag{3.13}$$

$$p_2 = \frac{\bar{\theta}(e_1 - e_2)e_2}{(4e_1 - e_2)}, \tag{3.14}$$

where higher prices will necessarily evolve from the ethically identified firm as represented by $p_1 > p_2$ due to the higher costs of ethical augmentation as well as the customer willingness to pay a premium for ethical products.

Choice of Ethical Augmentation

Given the prices chosen in the second stage of the game coupled with firm identity, each firm determines the level of ethical augmentation affiliated with its particular product. Based on the previous analysis for the price portion of the game, I denote the objective functions for this stage of the game where ethical augmentation is formulated for e_1 and e_2. I advance the following objective function:

$$\psi_i = \alpha_i \eta\left(e_i\right) + p_i \mu_i - c(e_i),\ i = 1, 2. \tag{3.15}$$

We assume that based on their organizational identities, firm 1 has a positive value of α (i.e. it cares about ethics for reasons beyond profitability) and firm 2 has a zero value for α (i.e. it only cares about profits). That is, even when firms choose to ethically augment their products in some fashion, in the case where $\alpha = 0$, I argue that they do so purely as a strategic tool for competitive advantage because it can be leveraged in the marketplace. The choice of ethical augmentation at equilibrium is denoted as e_1^*, e_2^*.

$$\psi_1(e_1^*, e_2^*) \geq \psi_1(e_1, e_2^*) \forall e \in [0, \bar{e}) \tag{3.16}$$

$$\psi_2(e_1^*, e_2^*) \geq \psi_2(e_1^*, e_2) \forall e \in [0, \bar{e}). \tag{3.17}$$

By considering the equilibrium functions formulated above, I may now derive equations exemplifying the firm objectives, which demonstrate that

$$\psi_1(e_1, e_2) = \alpha_1 \eta\left(e_1\right) + \frac{\bar{\theta}^2\, 4e_1^2 (e_1 - e_2)}{R(4e_1 - e_2)^2} - c(e_1) \tag{3.18}$$

$$\psi_2(e_1, e_2) = \frac{\bar{\theta}^2 e_1 e_2 (e_1 - e_2)}{R(4e_1 - e_2)^2} - c(e_2). \tag{3.19}$$

We solve this with the first-order conditions, which are

$$\alpha\eta'\left(e_1\right)+\frac{\overline{\theta}^2}{R}\frac{16e_1^3-12e_1^2e_2+8e_1e_2^2}{(4e_1-e_2)^3}-c'\left(e_1\right)=0 \tag{3.20}$$

$$\frac{\overline{\theta}^2}{R}\frac{4e_1^3-7e_1^2e_2+8e_1e_2^2}{(4e_1-e_2)^3}-c'\left(e_2\right)=0. \tag{3.21}$$

By totally differentiating the equations above, I arrive at the following

$$\begin{bmatrix} \alpha\eta''\left(e_1\right)+\frac{-\overline{\theta}^2}{R}\frac{8e_2^2(5e_1+e_2)}{(4e_1-e_2)^4}-c''\left(e_1\right) & \frac{\overline{\theta}^2}{R}\frac{8e_1e_2(5e_1+e_2)}{(4e_1-e_2)^4} \\ \frac{\overline{\theta}^2}{R}\frac{2e_1e_2(8e_1+7e_2)}{(4e_1-e_2)^4} & \frac{-\overline{\theta}^2}{R}\frac{2e_1^2(8e_1+7e_2)}{(4e_1-e_2)^4}-c''\left(e_2\right) \end{bmatrix}\begin{bmatrix} de_1 \\ de_2 \end{bmatrix}=0. \tag{3.22}$$

The firms will choose the levels of ethical augmentation relative to consumer demand as well as the ethical augmentation offered by its competitor in the marketplace and respond accordingly. Because I have set firm 1's ethical augmentation at a level greater than that of firm 2 throughout the paper, it follows that firm 1 will demonstrate a steeper response function to the ethical actions by firm 2 in consideration of marketplace norms.

Central to the point of this analysis is that when a firm overconforms due to the value and role of ethics in its identity, that firm will choose a higher level of ethical augmentation than a firm motivated solely by strategic advantage. This is the first proposition.

Proposition 1: *As the value and role of ethics increases in the firm's identity, the firm increases its ethical augmentation efforts,* that is $\frac{de_1}{d\alpha_1}>0$.

Further, as a firm's valuation of ethics increases in its identity, so too does the discrepancy between that firm's ethical augmentation and conforming firms' ethical augmentation. That is, as α increases for the firm, the difference in ethical augmentation between it and other firms will increase as well. This exemplifies the notion of ethical augmentation as a vehicle of product differentiation.

Proposition 2: *As the value of ethical augmentation to a firm (denoted α) increases, with constant product differentiation the difference between the ethical augmentation levels* e_1 *and* e_2 *for two firms will increase or widen.*

Ethical Overconformity to Normative Pressures

Firms at the heart of the analysis recognize the specific market norms to which they should adhere in reference to ethical prescriptions. The market, through ethical norms, $\hat{e}$, communicates the level of ethical performance to which a firm must conform to earn acceptance by customers and other constituencies. Subsequent sections of the paper continue by examining firm response to ethical prescriptions evolving from normative implications and institutional pressures in the marketplace. The firm responses comprising the analysis are straightforward conformity as well as overconformity to normative pressures in the form of ethical augmentation. In the analysis, firm 1 continues to be the overconforming firm, whereas firm 2 will *just* conform to normative standards, never deviating below or above this baseline level. I recognize that firms may fall below this minimum standard by engaging in ethically questionable or illegal practices (e.g., McCluskey 2000), however this is beyond the scope of the paper.

Based on the previous analysis it is known that any customers with a theta level as large as θ_2 will purchase the product given their preference for ethical augmentation as stipulated earlier. As such, when considering the variable $\hat{e}_i$ as the minimum normative standard of which the market will approve, I posit the following:

$$\theta_2 = \frac{p_2}{e_2} = \frac{\overline{\theta}(e_1 - e_2)}{4e_1 - e_2}. \tag{3.23}$$

Proposition 3: *If ethical norms are elevated in the market (but not to the extent that the market is no longer covered), then the conforming firm (firm 2) will exactly meet the elevated ethical norm and firm 1 will further overconform to exceed the elevated ethical norm.*

Deriving from the previous analyses (equations 3.20 and 3.21) for comparative statics, I demonstrate that, when a new, elevated normative level becomes greater than the planned levels of ethical augmentation for a firm, one may see

$$\frac{d\hat{e}_2}{d\hat{e}} = 1 \tag{3.24}$$

$$\frac{d\hat{e}_1}{d\hat{e}} = \frac{A8e_1e_2}{-\alpha\eta''\left(e_1\right) + A8e_2^2 + c''(e_1)}, \tag{3.25}$$

where

$$A = \frac{\overline{\theta}^2}{R}\frac{8e_1 + e_2}{(4e_1 - e_2)^4}. \tag{3.26}$$

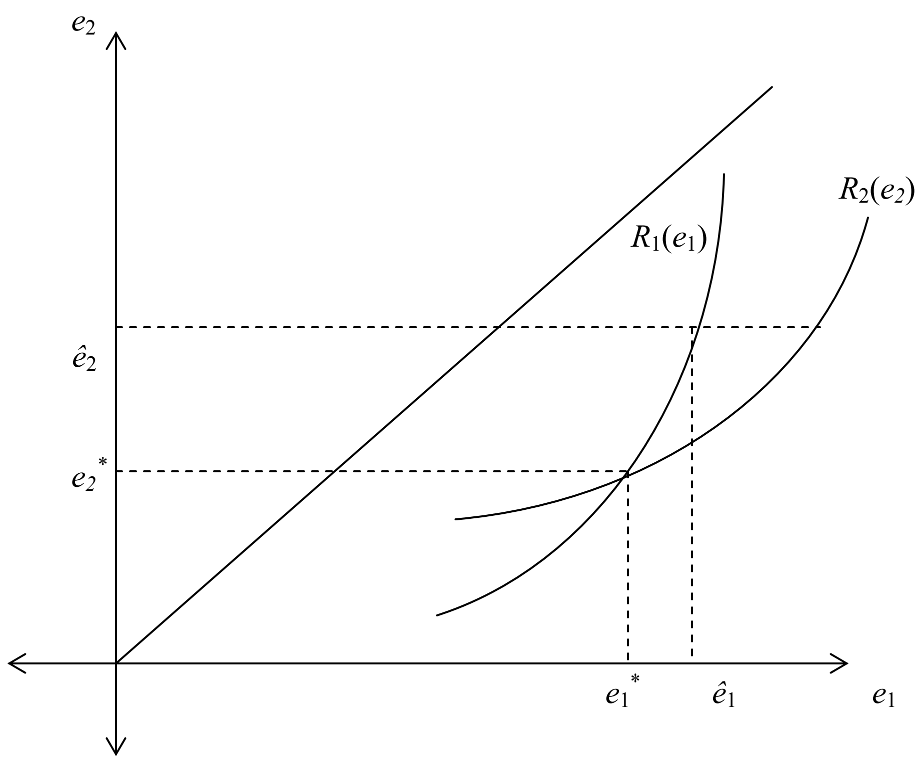
By inspection, the sign of $\frac{d\hat{e}_1}{d\hat{e}}$ in equation (3.25) is positive. However, since there are diminishing returns to ethics in the organizational identity, for firms with larger values of α (e.g., those for whom ethics is more important and plays a greater role in their identity), the effect of elevated normative pressures will be smaller on their levels of ethical augmentation. In contrast, if the motive for overconformity is based solely on gaining strategic advantage, a firm will respond to elevated normative pressures by increased overconformity.

> ***Proposition 4****: When the firm's overconformity is based in the value and importance of ethics in its organizational identity that firm will respond less to an elevation in norms than if the firm's overconformity is motivated by strategic advantage.*

Firms that overconform to normative standards respond to the dissemination of information about changing norms as it filters through the marketplace. Not all overconforming firms, however, will respond the same even in light of similarly valenced information. Underlying this assumption is the fact that firm motivations for overconformity can differ widely, as I suggest earlier in my discussion of motivations for overconformity. I argue that these motivations can fall into two distinct categories including those firms that overconform to normative pressures as a strategic lever solely to gain competitive advantage, and those firms that overconform based on both maximizing profits and the intrinsic firm beliefs that ethical overconformity is simply the right thing to do. Naturally, the firms falling into the latter category may enjoy a competitive advantage from their overtly ethical actions. I purport, however, that those firms will be less inclined to monitor constantly and immediately move to protect their competitive advantage if ethical standards for an entire industry are raised. The propositions demonstrate the motivations for overconformity by differentiating firms that are pure profit maximizers from firms that are intrinsically inclined to ethically overconform. To understand the motivations for ethical overconformity, such a model must account for the notion that not all firms are pure profit maximizers, as in the case of overconforming firms intrinsically motivated to contribute to a greater good rather than simply padding their bottom line. An elevated minimum level of ethical conformity means the gap between the conforming firm and the overconforming firm is narrowed. It follows that the competitive advantage enjoyed by the overconforming firm may narrow as well.

FIGURE 3.2

Firm Response to Shifts in Ethical Norms Differentiated by Firm Motivations



We visually represent these notions in Figure 3.2, where the response functions for firm 1 and 2 are depicted based on their ethical augmentation offerings. In addition, I graph the result if the baseline ethical norm in the industry shifts upward. Consistent with Proposition 4, the study demonstrates the more pronounced reaction by firm 2, which I purport emphasizes ethics for strategic advantage as opposed to firm 1, which values ethics intrinsically.

DISCUSSION AND IMPLICATIONS

We have taken a decidedly economic slant to understanding a firm's ethical stance and approaches in its strategic marketplace behaviors. Powerful theories including institutional, anomie, deviance, and organizational identity theory and their respective derivations, have allowed us to frame the questions exploring the strategic implications and the motives of a firm's overconformity to society's normative expectations related to ethics. In particular, I advance a game theoretic model that places firms in a duopoly setting and mathematically evaluates their respective determinations of ethical augmentation to product offerings and subsequent competition based on that augmentation and price. I contribute to literature in marketing and economics by explicitly advancing notions of identity and incorporating a valuation of ethics into the firm objective function. Traditional models of profit maximization, to date, have failed to capture concerns of ethics and account for the importance and value firms assign to these critical considerations. The theoretical model, which explicitly accommodates ethics as a strategic lever juxtaposed against profit and more traditional firm objectives, contributes to the literature by advancing a more rigorous application of ethical decision making in marketing.

Firms must weigh ethics in both the front end product inputs including product development, testing, and fabrication as well as in the customer interface activities like distribution, promotions, advertising and other marketing communications. I suggest that these decisions evolve from the firm identity guided by norms inherent in society. When adapting to normative pressures, firms have a range of behaviors available to them along a continuum of conformity. Overconformity, or the adoption of marketing programs, activities, and behaviors that go above and beyond what society deems acceptable in terms of ethical marketing practices, is one such option increasingly favored as an adaptive response to norms. Overconformity, it follows, has become a significant strategic advantage for firms exemplified in cases like those of Timberland, Whirlpool, Green Mountain Coffee, and others.

Theoretical Implications

We offer extensions and conceptual clarifications to important theoretical frameworks through the analyses. The relationship between a firm and its institutional domain is of direct concern to the firm's ethical choices in marketing, as well along an array of other functional areas of business decision making and research. Acknowledging the role of marketing as the boundary spanner of the firm and that the marketing function will have multiple touch points with its institutional constituencies is key in understanding a firm's ethical conformity or overconformity choices. Necessarily, the development and maintenance of those relationships with external constituencies, such as those posited by institutional theory, is a significant concern for marketing decision makers (e.g., Grewal, Comer, and Mehta 2001; Grewal and Dharwadkar 2002).

Drawing upon anomie theory, I advance the theoretical perspective that firms' exceeding society's expectations with regard to ethical marketing behaviors are positively deviant. In particular, I articulate the critical role of institutions as providing a yardstick for the firm by delineating society's values and normative expectations for ethical marketing conduct. Thus institutions provide the benchmark and backdrop by which the firm may evaluate conformity and thereby overconformity in its strategic marketing decisions. Consistent with anomie theory, the institutional frameworks faced by a firm also comprise the blockage and facilitating factors at work in that firm's conformity efforts.

Additionally, I cast institutions as a powerful influence in the development of firm identity, also a theoretical contribution. Through processes of habitualization and imprinting, firms mimetically isomorph in response to influential constituencies. These processes also ground firm structures and routines as responses to institutional norms, further formulating and defining the unique firm identity. By incorporating both of the substantial roles that institutions may exact on the firm, I provide a conceptually balanced and thorough backdrop for the questions of overconformity. Future research might continue to delineate the multiple manners in which institutions press upon firms and, likewise, shape firm behavioral responses.

Firm identity, too, is a multifaceted notion, as advanced in the theoretical model. Although multiple motivations for overconformity may drive such behaviors by a firm, I consider two of the most prominent motivations, which are often considered to be contrary to one another. Specifically, I articulate the case of the intrinsically motivated firm that values ethics for the sake of "doing the right thing." I juxtapose those motivations against firms who mobilize ethics as a strategic tool, where a clear performance advantage is leveraged. Theoretically, this delineation provides a more precise depiction of firm identity and motivations in the context of ethical decision making.

Finally, I advance theoretical perspectives in the domain of knowledge termed positive scholarship, where understanding and appreciating good and altruistic components of organizational life are purported to enrich theory. Some of these conditions, including notions of positive deviance and organizational flourishing, have become the focus of a prominent stream of theorizing (e.g., Fineman 2006; Roberts 2006). Positive states, dynamics, and outcomes arguably enrich more traditional theoretical perspectives in organizational theory and illuminate new directions for scholarly work.

Managerial Implications

We suggest that firms overconform to society's ethical prescriptions either because they highly value ethics or because they see it as a venue for strategic advantage. However, practically speaking, even the most ethically committed firms leverage their overconformity for strategic benefits in the marketplace. Regardless of the firm motivations from which they stem, ethics as a strategic initiative can have powerful implications, as demonstrated in the game theoretic model I advance. It has become apparent that, through increasing numbers of examples in the marketplace, ethics do factor prominently into the core objectives of many firms. Pursuing the ethical high road, I suggest then, is appropriately characterized as a strategic choice for firms. For example, voluntary overconformity might represent a unique advantage through product differentiation, particularly if competitors' products are regarded as ethically underconforming. For the most part, ultimately, overconforming firms enjoy a competitive advantage and perhaps even special recognition for their extraordinary ethical marketing endeavors (Kotchen 2005).

Firms may also choose to demonstrably overconform to normative pressures as a way to convey information or influence the institutional actors from whom the social pressures originated (Holburn and Vanden Bergh 2002). Importantly, if the instance occurred where a firm in a particular industry became subject to formalized regulation necessitating compliance behaviors, both costs and constraints would be involved. Specifically, requirements in the form of paperwork, inspections, fees, and time could further constrain firm strategic choices. It follows that if the firm can message to lawmakers and policy makers that its industry is self-policing and self-monitoring, formalized regulations and their subsequent negative implications may be avoided. Overconforming to normative prescriptions could serve as such a signal that tightening up or imposing restrictions for a particular industry is unnecessary and redundant. Thus, an additional possible strategic motivation for voluntary overconformity to ethical norms includes the anticipation of stricter regulations or the belief that heightened scrutiny focused on certain issues will soon follow. This type of forestalling behavior warrants further conceptualization and constitutes grounds for promising future research.

Future Research

Additional future research from this broad based theoretical investigation could further augment the marketing ethics literature by exploring a number of directions. First, to understand a full range of ethical conformity behaviors, I suggest that a natural next step would be to model and subsequently test questions involving ethical underconformity. In particular, research might investigate the motivations and strategic implications that are attached to firm decisions where ethical norms and expectations are subverted. Ethical underconformity has been demonstrated in the marketplace, especially through recent corporate scandals (e.g., Paine et al. 2005), and thus warrants an equally rigorous treatment for theoretical and conceptual clarification.

For questions of overconformity and also underconformity, much could be gained by examining data that with the potential to quantitatively scrutinize the theoretical propositions and test the posited relationships in ethical augmentation decisions. Perhaps by subjecting the research questions and propositions for overconformity (and eventually underconformity) to experimental analysis in an economic laboratory setting, one could model the outcomes of the study conclusions with actual behavior as it unfolds. In addition, historical data pertaining to ethical achievements or failures could be monitored and evaluated in terms of market response. Strategic reactions by competitors or firms within the same industry, where ethical conformity ranges among participants, could be analyzed and examined. In particular, shifts in ethical augmentation by firms in the same industry or domain could also be scrutinized in an attempt to understand the dynamic nature of positive or negative deviance among rivals, for example.

By articulating ethical challenges and dilemmas in marketing through a game theoretical perspective, many of the troubling limitations that have potentially constrained this research domain may be removed. It is my hope that questions evolving from ethical theory and other such frameworks will continue to be subjected to rigorous analyses, and that such work may eventually grow and burgeon in the marketing literature. Given the tumultuous landscape in which today's firms operate, these concerns warrant both managerial and scholarly attention.

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CHAPTER 4

PAPER TWO

MOTIVATIONS FOR ETHICAL MARKETING STRATEGIES: EMPIRICAL EVIDENCE OF FIRM IDENTITY AND MARKET RESPONSE

Abstract

In this study, I empirically examine managerial decision making to better understand the conditions surrounding ethical overconformity. I adapted strategic decision making experiments using a public goods framework to explore the theoretical tenets underpinning ethical conformity, firm identity, and market response. Practicing managers and students enrolled in executive development courses engaged in decision making representing firms with both ethical and strategically aggressive identities juxtaposed against one another under various conditions. The firms grappled with real world tradeoffs in actual ethical augmentation decisions where tangible performance implications, firm objectives, and market response varied. I used Partial Least Squares methodology to test the hypotheses. I also drew from game theory to examine the correspondence of the experimental data with game theoretical predictions. The study findings highlight the central role of the firm identity in establishing a larger firm objective related to ethical decision making. The results also demonstrate that the effect of firm identity is powerful enough to mute most individual ethical opinions and propensities, often considered some of managers' most deeply ingrained personal beliefs.

INTRODUCTION

Strategic decision making with ethical implications has been addressed in the marketing literature in a number of novel and influential ways (e.g., Dunfee, Smith, and Ross 1999; Gundlach and Murphy 1993; Handelman and Arnold 1999; Luo and Bhattacharya 2006). Indeed, this literature has cast the role of ethics in marketing strategy from a number of perspectives. One such research outgrowth involving ethical implications in marketing strategy includes ethical conformity and firm behaviors spanning from overconformity to underconformity that are evident in the marketplace. Specifically, ethical overconformity or the practice of firms going above and beyond what society deems is acceptable in terms of their marketing programs, activities, and behaviors, has become an increasingly fertile area of interest among marketing researchers (e.g., Martin, Johnson, and McCluskey 2007). To date, however, no study has empirically investigated the implications of ethical overconformity in strategic marketing decision making from the perspectives of actual managers who are likely to make such decisions in their professional capacities. This paper, then, represents a first foray into empirically capturing the interplay of firm identity and market response as they influence ethical decision making in marketing strategy.

A growing contingent of firms (e.g., Patagonia, Timberland, New Belgium) has demonstrated marked overconformity exceeding ethical standards in their marketing practices. I suspect that for many of these firms, ethical overconformity permeates their reason for being and is ingrained in their corporate identity. Conversely, it has been demonstrated in the marketplace that ethical marketing strategies appear to be leveraged for competitive advantage reasons, such as Wal-Mart’s current promotion of green packaging and other green practices. This exemplifies the case of a firm known more for its strategic aggressiveness leveraging ethics in its marketing practices. These examples demonstrate potentially disparate underlying motivations for ethical conformity decisions. Thus in addition to the firms with identities that are intrinsically committed to ethics in all their policies and practices, for some firms it seems that ethical overconformity could be attractive because it is a source of differentiation and garners a positive market response.

Ethics as a strategic marketing initiative can imply elevated costs associated with increased attention to front-end product inputs including development, production and fabrication issues, for example. Similarly, a heightened emphasis on ethics in customer interface activities such as distribution, advertising and promotion, pricing, and technological considerations (Laczniak and Murphy 2006) can incur costs for firms. Effective product differentiation through ethics or ethical augmentation, however, can lead to substantial strategic advantages for firms. In the instances when market response indicates that ethical augmentation will lead to competitive advantage, I suspect that strategically aggressive firms will be increasingly likely overconform in addition to those firms with ethics predominating in their identity. In contrast, when market response indicates that no advantage will be gained from overconformity, strategically aggressive firms may be more likely to just conform to meet standards. The research objective of this paper, accordingly, is to empirically evaluate ethical conformity decisions based on firm identity, market response, and potential for competitive advantage.

Through the scope of this paper, I employ a novel methodological approach to provide a quantitative test of the theoretical tenets underpinning these phenomena. First, firms with both ethical and strategically aggressive identities are juxtaposed against one another under various conditions in an experimental economics setting. Firms grapple with real world tradeoffs in actual ethical augmentation decisions where tangible performance implications, firm objectives, and market response vary. Hypotheses are generated and tested using the experimental economics methodology. Second, I draw from game theory to examine the correspondence of the experimental data with game theoretical predictions. Although I do not advance formal hypotheses involving game theoretical predictions, I do evaluate the empirical results of the study for correspondence with the theoretical model predictions.

The paper begins with a discussion of the theoretical background framing ethical conformity and overconformity in marketing. I extend theory by linking conceptual notions regarding ethical augmentation decisions and firm identity to offer hypotheses. Prior to discussing the study methodology, I advance a mathematical model of ethical conformity in strategic marketing decision making under various conditions. The experimental economics techniques and complementary methodologies devised for data collection are detailed in the following section. I present the results of the study, including both the experimental results and empirical correspondence to the game theoretical predictions. Following explication of the results, I conclude with a discussion of the study implications including limitations, future research opportunities, and potential managerial prescriptions.

CONCEPTUAL BACKGROUND AND HYPOTHESES DEVELOPMENT

A firm's stance on ethical conformity is put into practice with tangible and measurable ethical augmentation decisions. Ethical augmentation encompasses all the behaviors and marketing practices involving a product that have some ethical connotation. Given this definition, marketers may ethically augment their offerings through socially conscious production processes (e.g., Menon and Menon 1997), through marketing communications promoting ethical causes (e.g., Simmons and Becker-Olson 2006), or perhaps through strategic partnerships with ethical organizations (e.g., Berger, Cunningham, and Drumwright 2006), to name only a few ways in which a product may be ethically augmented. Accordingly, the degree of ethical augmentation executed by a firm is a natural consequence of its perspective on ethical conformity. This premise underpins the theoretical extensions and proposed hypotheses, which articulate the formulation of firm strategic decisions and market response.

Ethical augmentation as a consequence of overconformity, moreover, can span the full range of marketing activities from front end product inputs to customer interface activities. Thus an overconforming firm may exceed ethical behavior expectations in front end marketing activities such as those involving product development, testing, content, and fabrication. Likewise the overconformer may exceed expectations in its customer interface activities such as marketing communications, promotions, advertising, distribution, and pricing.

In contrast to overconforming firms, conforming firms are those that consistently just meet the standards or just match the acceptable level of ethical behaviors across the range of front end marketing inputs and customer interface activities. Conformity has been defined as a strong tendency to copy or mimic the most prevalent behavior in a population (Carpenter 2004; Cialdini and Trost 1998). This definition readily extends to firm behavior where, in the case of conforming firms, societal or normative expectations regarding their behavior are neither subverted nor exceeded. Consequently, the practice of overconformity may be considered exceptional, and is exemplified less frequently in the marketplace. Extraordinary firm behavior in the form of overconformity, arguably, warrants examination and further understanding.

The preceding discussion suggests that marketing decisions regarding ethical conformity represent a form of firm response to larger societal expectations. Indeed, the marketing literature has demonstrated the manner in which the institutional environment creates various pressures for firms forcing them to respond using a number of mechanisms and behaviors (Grewal, Comer, and Mehta 2001; Grewal and Dharwadkar 2002). As with any social norm, firms engage in marketing practices that cover a broad spectrum of legitimacy, or those actions considered normatively desirable and appropriate by the institutional environment (Suchman 1995). Following this logic, a firm may conform with respect to its marketing practices in an effort to attain legitimacy given societal expectations. These societal expectations or norms clearly evoke a range of responses across firms.

I argue that responses offered by firms to address normative expectations related to ethical marketing issues are no exception. Marketing practices involving ethics that do not just conform to normative expectations, therefore, deviate from ethical norms either by exceeding or falling short of them. Ethical overconformity, in particular, is used to describe those behaviors and practices that exceed social normative expectations. Theoretical frameworks advanced in previous research (e.g., Martin, Johnson, and McCluskey 2007) suggest that firm conformity decisions, including exceptional decisions consistent with overconformity, are a manifestation of the firm identity. The following discussion elaborates this theoretical argument, applying ethical conformity in the identity to strategic firm decision making.

The Role of Firm Identity

Identity is the combinative construal of firm culture, history, structure, characteristics, status and reputation with competitors, customers, and society at large (Brown, Dacin, Pratt, and Whetten 2006). As commonly defined in the literature, identity involves all that is central, distinctive, and enduring about a firm (Albert and Whetten 1985). Identities impose patterns on the underlying social codes comprising the core of the firm (Pólos, Hannan, and Carroll 2002). A firm's identity, moreover, is formulated and cemented over some time. Because it is comprised of both internal and self-reflective components as well as external construal of activities, identity provides a richer perspective about firm behavior than reputational frameworks, for example, which only consider external evaluations (Gioia, Schultz, and Corley 2000).

According to institutional theory, firms morph to reflect institutional preferences and other socially desirable characteristics of competitors and other constituencies that they observe in the marketplace. As such, firms often engage in a degree of isomorphic behavior to attain legitimacy in the face of normative pressures (e.g., Grewal, Comer, and Mehta 2001, Grewal and Dharwadkar 2002). Indeed, as discussed above, firms fashion components of their identities such as structures, practices, and routines, toward those that are viewed favorably by various institutions in response to social norms (Handelman 2006). Through this process of habitualizing and imprinting various behaviors and practices, programmatic responses to norms in light of institutional expectations become ingrained in firm identity, preserving core processes and structures and serving to solidify the identity (e.g., Grewal and Dharwadkar 2002).

Identity is multifaceted in that it gives rise to a number of critical firm behaviors and strategic initiatives. For example, it characterizes firm interactions with its stakeholders and it determines the nature of customer and competitor interactions. Projecting an identity requires consistency between the many facets comprising it, which may be present to varying degrees. Thus, the theoretical framework implies that firm identity requires consistency between marketing actions and organizational mission, as well as in all permutations of firm meanings, symbols, and values as conveyed through marketing communications (Simöes, Dibb, and Fisk

2005). Internal elements of identity and external image construal interplay to influence the formulation and implementation of marketing programs as well as the marketing messages and communications conveyed by the firm (Brown, Dacin, Pratt, and Whetten 2006). It is these marketing activities and communication mechanisms and their resulting transient images that resonate with institutional actors and stakeholders.

Identity as a Driver of Ethical Conformity

Given that identity is a key driver of firm choices and decisions, likewise, the choice of ethical conformity is rooted in the firm's identity. Accordingly, ethical overconformity in marketing is an intentional outgrowth of the firm identity. The choice to ethically overconform is purposeful, involving the commitment of necessary resources to support ethically rigorous practices and other overtly ethical marketing behaviors (Smith 1993). Conversely, ethics as a function of identity would imply that when faced with resource constraints, firms are not likely to suddenly avoid overconformity or even fail to meet certain normative expectations in an effort to reduce costs or inflate short-term profits. Identity by definition, therefore, creates strategic stability and consistency in marketing practices enduring in mission and purpose across time.

Given the theoretical linkage between firm response to normative expectations and the role of identity, the firm's internal value system and the construal of the image it seeks to project across all its constituencies' demands attention to ethical standards instilled across all its activities in the market interface. Likewise, the firm's messaging and marketing activities manifest this value and belief regarding the importance of ethics in the firm's culture and cognitive systems. Ethical overconformity is a purposive choice because that is how the firm sees itself, what the firm is, and what the firm seeks to project. Firms like Ben and Jerry's, Patagonia, and Green Mountain Coffee have demonstrated through their marketing practices that ethical values are a central and defining factor in their firm identity. For firms such as these who clearly manifest a marked valuation of ethics in their firm identity, they will consistently engage in ethical augmentation in their offerings whether or not they believe that a competitive advantage may be gained from such behavior.

H1: When ethics predominates in firm identity, the firm will ethically augment (overconform) regardless of market response.

Apart from intrinsic valuation of ethics diffused through firm identity, as with any strategic marketing practices, additional concerns likely motivate ethical conformity decisions. In particular, the potential market response to ethical conformity likely drives firms' ethical decisions in certain circumstances. In one plausible scenario, firms may elect to overconform because market response indicates that such behavior will be viewed favorably, becoming a source of competitive advantage (e.g., Hamel and Prahalad 1989; 1994). For example, a firm may see that a strong ethical stance increases the value of their offering in the marketplace. In this case, overconformity may be a result of lengthy and extensive marketing research aimed at meeting and exceeding customer needs in a superior fashion to relevant competitors (Smith 1993). Similarly, underconformity decisions also likely evolve from firm efforts to gain advantages such as time savings (e.g., inadequate product testing) or reduction in various costs (e.g., inexpensive child labor in developing nations) associated with ethical practices, although questions of underconformity are beyond the scope of this analysis.

To elaborate, I consider the perspective of the strategically aggressive firm, which involves the extent to which the firm is intent on achieving competitive dominance (Hamel and Prahalad 1989, 1994; Johnson and Sohi 2001). Specifically, a firm with an identity predominated by strategic aggression is unrelenting in its efforts to win competitively with heavy emphasis on edging out competitors and seizing market share (Venkatraman 1989). Firms with strategic aggression diffused through their identities exemplify a willingness to challenge competitors, often forcefully, for performance gains (Ferrier 2001). Strategic aggression implies that the firm is ambitious with regard to growth and supremacy in its markets, devoting all possible resources and working in all possible ways to pursue these objectives (Hamel and Prahalad 1989, 1994). Given the conceptual and theoretical implications of firms with identities rooted in strategic aggression, ethical conformity decisions in marketing practices for these firms will be contingent on the likely market response to such behaviors. Because strategically aggressive firms focus organization-level goals, as well as motivate individual actors to win competitively in the marketplace, ethical conformity decisions will be mobilized and adjusted based on their ability to achieve dominance and competitive superiority.

> **H2:** When strategic aggression predominates in firm identity, the firm will not ethically augment (just conform) if market response indicates that overconformity does not result in competitive advantage.

> **H3:** When strategic aggression predominates in firm identity, the firm will ethically augment (overconform) if market response indicates overconformity results in competitive advantage.

Diffusion and Endurance of the Firm Identity

Just as firms exhibit predispositions for ethical augmentation as a result of their identities as explicated above, marketing scholars have theorized that managerial predispositions have the potential to influence strategic decision making in a similar manner (e.g., Day and Nedungadi 1994; Goolsby and Hunt 1992). Given the widespread diffusion of identity and its inculcation across all marketing practices, however, I argue that firm identity significantly predominates individual managerial predispositions with regard to ethical decision making and firm behavior. Supporting this assertion, the identity literature conceptualizes the internal components of identity, such as climate and culture, as iterative combinations evolving from an amalgam of personal beliefs and values (e.g., Scott and Lane 2000). Individual propensities toward various ethical beliefs, therefore, will likely be incorporated into the firm identity through climate and culture to a large degree (e.g., Paine, Deshpandé, Margolis, and Bettcher 2005), and thus will be widely diffused through these mechanisms. Grounded in this logic, in the instances where preexisting managerial notions of business ethics or responsible corporate ethical behavior in society contrast against the predominating firm identity, I argue that overarching firm objectives, goals, and mission conveyed by the identity will overwhelm and subdue any potentially contradictory personal decision making tendencies related to ethics.

> **H4:** Firm identity, regardless of whether it is predominated by ethics or by strategic aggression, will overwhelm any individual managerial propensities toward ethical augmentation (conformity) decisions.

One of the core properties of firm identity, as conceptualized in what is perhaps the most widely accepted definition of firm identity (i.e., Albert and Whetten 1985), is its enduring nature. Identity promotes consistent decision making to the extent that the multiple, integral components of the identity itself remain stable. Although the identity may shift and evolve over time based on a variety of internal and external forces (Gioia, Schultz, and Corley 2000), because such adaptation involves all firm processes, structures, practices, and activities, measurable change to the identity would necessarily occur over considerable time (e.g., Whetten and Godfrey 1998). So too, ethical beliefs and expectations of society evolve over time (e.g., Ferrell 2007), often spanning multiple generations. These beliefs are considered to be some of the most deeply held by society (e.g., Murphy, Laczniak, Bowie, and Klein 2005) and thus are not likely to change with much frequency. The long-term and lasting nature of ethical beliefs coupled with the stable and enduring properties of the firm identity, therefore, should lead to ethical augmentation decisions and marketing practices that are consistent and endure over some time.

H5: Firm identity, regardless of whether it is predominated by ethics or by strategic aggression, will remain stable over time as demonstrated by consistent ethical augmentation (conformity) decisions.

Game Theoretical Predictions for Ethical Conformity

Previous research (Martin, Johnson, and McCluskey 2007) advanced a game theoretical model of ethical conformity in marketing, juxtaposing firms that overconform with those that simply conform through ethical augmentation practices in a duopoly setting. So too, this paper contrasts overconforming and conforming firms and evaluates the correspondence of game theoretical predictions with actual firm ethical augmentation behavior. Similar to previous work, although not in a duopoly setting, I incorporate a valuation of ethics as manifested in the firm identity into the overarching objective function of the firm. I denote the following objective function, which extends the conceptual relationships and linkages described in the theoretical framework above into game theoretical predictions. The objective function, furthermore, is posited to underpin the firm strategic decision making tested in the empirical examination that follows. Specifically,

$$\pi_i = \theta(\alpha_i x_i) + [x_i - (\alpha_i x_i)] + \theta \sum_{j=i}^{N} (\alpha_i x_i)_j \quad i = 1, 2 \tag{4.1}$$

where x represents the total firm resource endowment and α is a value between zero and one that represents the degree to which the firm ethically augments its offering in the market. The rate of return expected from the ethical augmentation is denoted θ and is also a value between zero and one. In addition, because ethical augmentation contributes to the greater good at both the societal and industry level, I account for the value of ethical augmentation by other firms, N, within an industry as accumulated over time denoted $j = i$ periods. Thus the objective function consists of the firm's unique allocation of resources given their valuation of ethics and the rate of return for ethical augmentation, combined with the industry accrual of the ethical good from all firms contributing to the cause.

Game theory specifies the Nash equilibrium strategy for this function is for firms to engage in ethical augmentation at a level of $\alpha = 0$. In other words, Nash equilibrium specifies that in any given industry, it is in all firms' best interest to contribute nothing to ethical augmentation. The rationale is that because other firms in the industry enjoy the benefits of every other firm's ethical contribution, many firms will be tempted to behave opportunistically or free-ride by contributing nothing. Zero contributions, according to this logic, necessarily lower the overall ethical benefit for the industry and thus it is in all firms' best interest to individualistically preserve their own resources and avoid ethically beneficial augmentation behavior. It is evident in both the literature (e.g., Kagel and Roth 1995; Zelmer 2003) and in the marketplace, however, that firms and decision makers do not behave accordingly, providing evidence for identities predominated by ethics and signaling the existence of tangible ethical augmentation allocations in some firms' objectives.

In contrast, the Pareto optimal strategy is for all firms to completely ethically augment at a level of $\alpha = 1$, allocating their total firm resource endowment to ethical augmentation. The rational for this strategy is that by contributing entire resource endowments toward an ethical cause, every firm in a given industry benefits exponentially (as a function of θ) as the total industry ethical emphasis is amplified. As such, according to this logic firms stand to substantially inflate their resource endowments based on the returns from facilitating ethical augmentation practices. As with the Nash equilibrium predictions, however, evidence in the literature and in the marketplace demonstrates that for-profit firm behavior is rarely, if ever, dedicated to complete ethical augmentation or 100% contribution of firm resources to ethical practices in product development and customer interface activities (e.g., Park 2000).

The game theoretical predictions capture ethical augmentation practices as follows $(0 \le \alpha \le 1)$, where firms with more substantial ethical augmentation practices are denoted as having α values approaching 1, as opposed to firms with diminished ethical augmentation practices denoted as having α values approaching 0. I hypothesize above that firms with ethical identities will ethically augment their offerings regardless of market response. Thus, the following objective function is depicted for firm 1, or a firm with an identity predominated by ethics

$$\pi_1 = \theta(\alpha_1 x_1) + [x_1 - (\alpha_1 x_1)] + \theta \sum_{j=i}^{N} (\alpha_i x_i)_j \, . \tag{4.2}$$

Conversely, my conceptualization predicts that in the case when market response indicates ethical augmentation will not lead to a competitive advantage, firms with identities predominated by strategic aggression will not ethically augment their offerings or have alpha values of zero. As such, the strategically aggressive firm (firm 2) will have an objective function consisting of their total resource endowment enhanced by ethical contributions made by others in the industry, exhibiting a form of the free-rider problem described above. Specifically, for the firm whose identity is predominated by strategic aggression and when market response does not indicate a competitive advantage from ethical augmentation

$$\pi_2 = \theta[x_2(\varepsilon\alpha_2)] + [x_2 - [x_2(\varepsilon\alpha_2)]] + \theta \sum_{j=i}^{N} (\alpha_i x_i)_j \, , \tag{4.3}$$

and thus when $\varepsilon = 0$,

$$\pi_2 = x_2 + \theta \sum_{j=i}^{N} (\alpha_i x_i)_j \, . \tag{4.4}$$

When market response is favorable toward ethical augmentation, however, firms with identities rooted in strategic aggression will be increasingly likely to pursue such an advantage. I propose that for strategically aggressive firms, ethical augmentation levels as denoted $(0 \leq \alpha \leq 1)$ are a function of the potential advantage from market response ε. Therefore, for firm 2 when $\varepsilon <$ 0, concurrently $\alpha < 0$. As such, the objective function for the strategically aggressive firm will resemble that of the ethical firm despite their markedly different identities and underlying behavioral motivations. For the strategically aggressive firm to maximize its objective in this situation, it makes ethical augmentation decisions in light of the potential advantage to be gained from such augmentation in the marketplace. As noted above, this function can be depicted

$$\pi_2 = \theta[x_2(\varepsilon\alpha_2)] + [x_2 - [x_2(\varepsilon\alpha_2)]] + \theta\sum_{j=i}^{N}(\alpha_i x_i)_j, \tag{4.5}$$

where ε denotes the potential advantage to be gained from market response.

As such, in addition to testing the hypothetical relationships proposed, I evaluate the degree to which empirical evidence supports or refutes the mathematical predictions advanced regarding ethical augmentation and firm-level conformity. Discussion of the research methodology, data collection procedures, and results follows.

METHOD

To address the research questions, I sought a deeper understanding of the manner in which firms make strategic marketing decisions involving ethical implications. Because firm-level decision making involving ethical issues is often sensitive in nature and would be necessarily difficult to assess in a field setting, I used an experimental economics approach to address the research questions. Indeed, in the context of my research objectives, experimental economics approaches provided assessment of actual marketplace behavior (Camerer 2003;

Kagel and Roth 1995), while subverting the potential social desirability biases that have notoriously complicated ethics and related research (e.g., Mick 1996). Furthermore, as with consumer research and related experiments, it is imperative that multiple factors (e.g., return rate for ethical augmentation; industry size) were carefully controlled and evaluated in light of the agents' decisions. Finally, to understand the causal relationships between critical variables including firm identity, managerial predispositions, and ethical augmentation for example, a research design needed to omit potentially conflicting relationships and the noise inherent in more complex firm environments. For these reasons, economic experiments were used to simulate firm decision making in the context of the variables of interest.

Experimental Setting

Experimental economics approaches increasingly are advocated as desirable techniques by which firm behavior in markets may be more precisely modeled. Strategic and firm-level topics that have been investigated using experimental economics approaches in the marketing literature include profit sharing and alliances (Amaldoss, Meyer, Raju, and Rapoport 2000), price negotiations in marketing channels (Srivastava, Chakravarti, and Rapoport 2000), and salesforce compensation strategies (Ghosh and John 2000), to name a few. In fact, the call has been made for increased use of economic models augmented by experimental investigations of marketplace phenomena allowing for enhanced understanding of firm behavior as it actually unfolds (see Ho, Lim, and Camerer 2006). Not only does the experimental investigation provide understanding of managerial decision making under various conditions, it also allows for examination the accuracy of game theoretical and other economic models in predicting actual firm behavior.

To address the research questions, I employed a variation of public goods games, which have provided the backdrop for a number of investigations where tradeoffs involving public and private resources must be made (e.g., Davis and Holt 1993). More specifically, the experimental setting focused on firm-level budgetary decisions allocating resources either to additional marketing expenditures that advance the firm's self-interest, or to ethical augmentation that advanced the collective interest of the firm as well as the interests of other industry members. Also consistent with public goods scenarios, cooperating by investing in the industry ethical good implied the risk that the firm would earn less overall, but each firm's potential to earn more was enlarged if all others contributed to the ethical industry cause. Derived from the conceptual framework advanced above, I suspected the role of the firm identity would be critical to the manner in which firms made these decisions.

Specifically, in the experimental setting each of four firms (N) invested resources ($\alpha_i x_i$) from a discretionary budget x_i in an industry ethical good (ethical augmentation) that was shared by everyone and had a total per unit value of θ. As described above, alpha was a value between zero and one, and represented the extent to which a firm ethically augmented its product offering. Player i earned $x_i - [\theta\,(\alpha_i x_i)] + \theta[\Sigma_k\,(\alpha_i x_i)_k]/N$. Consistent with the theoretical predictions and the Nash equilibrium strategy, assuming $\theta < 1/N$, the payoff-maximizing outcome was to contribute nothing or when $\alpha_i = 0$. Consistent with the Pareto optimal strategy, if all firms contributed maximally, the individual firms or participants would collectively earn the most. The details of the experimental procedures are described below.

Data Collection and Subjects

I recruited practicing managers enrolled in executive development courses across multiple campuses located in multiple cities of a large Northwestern university. I initially contacted participants through the advanced practitioner education programs, and those participants referred their managerial colleagues who participated in subsequent sessions. This generated additional subjects bringing the total sample to seventy-two practicing managers. Due to missing data and incomplete responses, however, four participants were excluded from the final analysis. The sixty-eight participants averaged more than eight years professional work experience beyond their undergraduate degrees and oversaw more than 20 employees on average. The occupational backgrounds and day-to-day responsibilities of the participants varied widely. Females comprised approximately 30 percent of the total sample. Subjects were offered $10 participation fees and were informed of the opportunity to win up to $30 more based on the quality of their decisions.

In the strategic decision making scenarios, each individual participant acted as the marketing manager and the primary decision maker for his or her firm. Because in practice strategic decisions involving important marketing and ethical investment considerations are typically reached by groups of managers as opposed to a single decision maker, this study serves as a preliminary investigation into ethical overconformity decisions at the firm level. Future research would benefit from investigating ethical considerations as they unfold among groups of strategic marketing decision makers as those concerns are actually occurring in the context of a single decision.

Procedures and Manipulation Check

I employed a between-subject design, where groups of four comprised a hypothetical industry. In the context of an industry, two strategically aggressive firms and two ethical firms competed for the greatest cash returns in strategic decision making games. Players were randomly assigned to one of the two firm identity treatments based on the firm goals specified for them, which is explained in greater detail below. To maintain confidentiality throughout the game, the particular identities of the other firms were unknown to the players, as were the objectives assigned to the other firms. To test the hypotheses, treatment groups were generated using objectives rooted in either strategically aggressive or ethically-oriented firm goals. Participants were instructed to allocate a discretionary budget between additional marketing expenditures and ethical augmentation that promoted a good cause for the entire industry. They learned of the ethical cause furthered through augmentation by reading a detailed scenario, which is featured in the appendix (see Appendix, Paper Two). Although participants had different firm objectives, each read the same ethical scenario. As such, contributions made to ethical augmentation enhanced a single ethical cause of which all participants were informed.

Participants learned of their individual firm goals also by reading scenarios, which are featured in the appendix. These scenarios created either an ethical identity or a strategically aggressive identity by imposing various firm missions, goals, and objectives. The central themes of the firm objectives were derived from the literature. For example, I drew from the construct definition of strategic aggressiveness (Johnson and Sohi 2001) to craft the corresponding scenario. In particular, the notions of seeking competitive dominance, an emphasis on market leadership (both gaining and maintaining), and systematically building competitive advantage were central to this scenario. Participants assigned to this group were instructed through the scenario to focus firm attention on winning in the marketplace, at all cost. To craft the ethical scenario, parallel instructions were given encouraging participants to focus on the ethical mission and goals of the firm and advancing the greater good. Importantly and consistent with marketplace reality, the ethical scenario does not imply complete altruism, as participants are instructed to advance the firm good concurrently with advancing the greater societal and industry good.

All scenarios (general ethical situation read by all and differing firm objectives) and experimental procedures were pretested with groups of experts in experimental economics and social psychology experiments, as well as experts in strategic marketing and business ethics. Procedures and experimental documents, including scenarios, were refined according to the insights offered by the experts through the course of these pretests. In addition, I conducted manipulations checks, which were administered to all participants subsequent to the strategic decision making games in the form of brief, seven-item questionnaires. Participants overwhelmingly indicated that the objectives were clear and that the scenarios convincingly described their approach to decision making. Upon conclusion, participants were also asked to restate their decision making objectives on this form, and all (100%) restated these correctly in accordance with their randomly assigned firm identity.

Each experimental setting commenced according to the following procedures. Participants were seated randomly in a small seminar style room. Each person was immediately paid the participation fee and thanked for attending the session. After each participant read and signed a consent form, questionnaires were distributed and completed by the participants. Confidentiality of the questionnaire responses as well as the outcomes of the game were ensured to participants. Once all questionnaires were completed and collected, packets with the experiment materials were distributed at random to each subject. Participants were told to open and proceed through the packet materials only as instructed to do so by the experimenter. Talking among participants was not allowed. In addition, participants were told to expect to spend 45 minutes total in the remainder of the session. The instructions for the strategic decision making game were read aloud and, because of their length and moderate complexity, important points were emphasized using complementary PowerPoint slides displayed using overhead projection. Once all instructions and relevant materials were discussed, play of the game commenced. All sessions included ten rounds of decision making. Once the final round commenced, subjects completed manipulations checks, were paid their appropriate earnings, and were debriefed. More specific details regarding the various courses of action for each experimental condition are provided below.

Conditions

Baseline Condition

Firms, or participants in the experiment, were allocated an initial stipend and used that to make two investment decisions. Of their endowment x, firms 1) decided how much to allocate toward additional marketing which earns them a 1:1 return and 2) decided how much to allocate toward ethical augmentation which earns a return of θ, or in this case a .50 return compounded against the total industry contributions toward ethical augmentation. To maintain consistency, a .50 return (or theta value) was held constant for all rounds and in all sessions conducted. This rate also allowed participants ease of computation. For example if all players contributed their total allotment to the ethical cause, each would double his or her money serving as a straightforward decision heuristic. Participants were given a table of the exact payoffs that they could receive from the ethical cause based on what was contributed. This table is featured in the appendix corresponding with this paper.

Play continued for ten periods, where each firm's budget was reset prior to the beginning of each new round. Similarly, earnings did not accumulate across multiple periods and were reset to zero prior to each new round. The table participants used to calculate their earnings and make budget decisions is featured at the conclusion of the paper in the appendix. After all decisions were submitted and tabulated for a given round, the total dollar value contributed to ethical augmentation was display overhead and the specific dollar value each firm earns from this total contribution was also displayed. The individual contributions of each firm were kept confidential in this manner, while still allowing participants to observe total ethical augmentation behavior. Participants were informed that upon conclusion of all rounds, a ten-sided die would be rolled to determine the round for which the highest earner will be rewarded. That firm was then paid the dollar amount corresponding to the amount he or she actually earned in that round of the game, derived from the objective function advanced above. The practice of randomly selecting a single round by which to determine payoffs is common in experimental economics methodologies to encourage thoughtful decision making (e.g., Davis and Holt 1993). This reward structure also allowed the research team to minimize the total payout amount, causing the average payoff per industry to approximate $30.

Favorable Market Response Condition

To evaluate the hypotheses I conducted multiple sessions where participants knew that contributing to ethical augmentation could potentially earn an additional reward. To mirror marketplace reality as closely as possible, and to avoid the possibility that all firms simply contribute their entire endowment to ethical augmentation without staying true to their firm objectives, the amount of the reward purposefully was described vaguely to the participants. Consistent with the theoretical framework and the hypothetical relationships investigated, participants were simply told that contributing to ethical augmentation would achieve favorable market response. As with actual industry phenomena, they were informed that by contributing the most to ethical augmentation they could potentially earn an additional reward of an amount that was disclosed following the game’s conclusion.

Questionnaire Measures and Control Variables

To test Hypothesis 4, and to ensure that the study results would not be mere artifacts of individuals' personal ethical beliefs or background characteristics, I adapted an instrument to assess different dimensions of participants' personal beliefs and opinions. The items featured on the instrument were derived from published and accepted marketing scales to assess individual perceptions about marketing ethics as well as opinions and beliefs regarding the role of business in society. These scales accounted for twelve total questions, which are featured in the measure appendix that follows. All items were anchored from 1 to 7, with 1 representing strongly disagree, and 7 representing strongly agree.

First, I examined personal attitudes toward the role of corporations in society using five items adapted from existing work (Williams 1982). This multi-item measure assessed the extent to which subjects believed societal constituents should have a role in business decision making and management. Specifically, the portion of the scale used was designed to assess whether participants thought that managers, policymakers, or overarching social responsibility goals should drive the actions of a corporation. It also tapped into notions of business responsibility to stakeholders and public service obligations. Participants indicated the degree to which they agreed with statements such as "The management of a corporation is responsible to many definable interests in society." Three of the five items were reverse coded. These and all items featured on the study instrument are listed in full in the measure appendix.

The next scale has been referred to as the consumer normlessness scale (Durand and Lambert 1985; Lambert 1980), and is part of a larger scale grounded in attitudes toward business ethics. The measure was designed to understand consumers' sense of ethical behavior displayed by business as a whole. Specifically, the items evaluate ethical implications for consumers as a result of marketing decision making. I used a modified, three-item scale adapted from previous work (e.g., Durand and Lambert 1985) comprised of items such as “If people really knew what businesses do to deceive and take advantage of consumers they would be upset,” to understand personal ethical skepticism regarding business. Additional items involving planned obsolescence, consumer fairness, and deception comprised the measure.

Finally, I adapted four items from Peters’ (1972) social responsibility scale for marketing personnel to address additional and varied notions of business responsibility. Specifically, this measure evaluates individuals’ personal ethical orientation with regard to corporate responsibility, investigating their opinions about whether business’ concerns for consumer welfare should evolve from altruistic beliefs or more pragmatic bottom line impacts. Participants’ perceptions regarding underlying motivations for ethical business decisions also were assessed. For example, participants were queried about the extent to which they agree that “To maximize profits should be the single most important goal of business” and whether “The main reason a firm should care about what the consumer thinks and wants is because it is a way to gain market share.” Three of the four items, as shown in the measure appendix, were reverse coded.

Demographic information regarding the participant and his or her employment, as well as information regarding professional experience and responsibility was queried. In addition to age and gender information, participants provided their occupation and years work experience. They also stated the number of employees for whom they were responsible in their professional capacity. Confidentially of the information was assured, and no revealing or identifying personal information was sought. Only once all questionnaires were completed and collected did the experimenter begin to describe instructions for the strategic decision making game. Because the questionnaire was administered prior to the lengthy set of instructions, I was confident that the items comprising it would not influence decision making in the experiment. The feedback received in several pretest sessions confirmed that administering the questionnaire prior to the experiment did not interfere with subjects' ability to follow their specified firm goals.

Correspondence to Game Theoretic Model

Both conditions were comprised of strategic decision making by firms with identities predominated by ethics and firms with identities predominated by strategic aggression. The operationalizations of the firm identity were informed by the literature and were modeled empirically through ethical augmentation in the firm objective function. With respect to the game theoretical framework predicted to underpin the phenomena in question, the central factor differentiating firms in the decision making game originates in the objective function, where all parameters are defined in the discussion above. This function necessarily varies across firms and represents the degree to which specific firms engage in ethical augmentation to maximize their objectives. I assumed that based on their organizational identities, firm 1 had a positive value of α (i.e. ethically augment downstream product offerings) and firm 2 approached a zero value for α (i.e. does not ethically augment downstream product offerings). As an exception, however, strategically aggressive firms may choose to ethically augment their products in some fashion ($\alpha < 0$) as a strategic tool for competitive advantage because it can be leveraged in the marketplace. The results of the empirical investigation follow, including a discussion of the correspondence of the game theoretical model with the actual data.

RESULTS

Measure Validation

Prior to evaluating the individual hypotheses, I analyzed the scale items for the three multi-item measures featured on the questionnaire by conducting a single confirmatory factor analysis (CFA) for measure purification using partial least squares (PLS) methodology. Given the unique characteristics of the data, including the small sample size, PLS is a more appropriate analytical technique than ordinary confirmatory factor analysis methods. PLS, however, does not provide fit statistics. A more detailed discussion of the logic for using PLS is featured below. Individual item loadings as well as construct composite reliabilities and average variance extracted (AVE) statistics are featured in the appendix. In accordance with methodological prescriptions (Hulland 1999), I retained all items with loadings greater than .50. All items loaded significantly and substantively on their respective constructs ($p < .001$). I calculated composite reliabilities for each construct (Fornell and Larcker 1981), and find that each construct demonstrates acceptable internal consistency, with each reliability value at or approximating .80 (Nunnally and Bernstein 1994). In addition, I calculated the average variance extracted (AVE) statistics for each construct. The recommended AVE benchmark of .50 (Fornell and Larcker 1981) was exceeded for each construct, demonstrating that more than half of the variance of the indicators should be accounted for.

To assess discriminant validity, I computed the square root of the AVE values for each construct and compared these values to the correlations between the constructs. As shown in Table 4.1, the largest correlation between constructs was between managerial ethical skepticism and managerial perceptions of overall business responsibility ($r = .41$). This value, however, is less than the square root of AVE for corporations' role in society ($\sqrt{.54} = .73$), in evidence of discriminant validity.

Hypotheses Testing: Partial Least Squares Estimation

Given the characteristics of the study data, there are several reasons why partial least squares (PLS) estimation is the most appropriate analytical technique. First, PLS is structured as an iterative combination of regression and principal components analysis (e.g., Fornell and Bookstein 1982), which is appropriate given the relatively small sample size of the study. Second and perhaps most important, PLS makes no distributional assumptions. This is makes PLS estimation particularly germane to experimental economics methodologies, which are subject to analysis limitations due to their frequent violation of the normal distribution assumption. Specifically, PLS is considered a "soft" modeling technique, which does not make the hard assumption of independence of observations, for example (Chin 1998; p. 315). Instead of using traditional parametric significance testing, therefore, PLS allows for resampling with replacement (such as bootstrapping) to estimate the significance of the parameters. Finally, in consideration of the theoretical framework, specifically due to the novelty of studying ethical augmentation in a marketing theoretical context, PLS is appropriate when the substantive theoretical framework is not well defined in the literature (e.g., Chin 1998; Hulland 1999). For these reasons PLS estimation, specifically using the statistical package PLS-GRAPH version 3.0 (Chin 2003), was used to evaluate the effectiveness of the experimental treatments and to analyze the study measures generated from the hypothesized relationships.

TABLE 4.1

Descriptive Statistics: Mean, Standard Deviations, and Correlations[a,b]

	Mean	s.d.	1	2	3	4	5	6
1. Total Ethical Augmentation	42.90	27.80						
2. Corporations' Role Society	4.44	1.62	0.33					
3. Ethical Skepticism	4.20	1.66	0.16	0.13				
4. Business' Responsibility	3.91	1.59	0.37	0.37	0.41			
5. Work Experience	8.28	9.65	0.10	-0.29	-0.09	-0.01		
6. Number Employees Managed	20.46	60.09	-0.06	-0.08	-0.34	-0.14	0.27	
7. Gender (m = 0; f = 1)	0.30	0.46	0.06	0.26	-0.21	0.17	0.06	-0.05

[a] Correlations with absolute values of 0.32 or greater are significant at the $p < .01$ level
[b] Correlations with absolute values of 0.28 or greater are significant at the $p < .05$ level

TABLE 4.2

Mean Ethical Augmentation Based on Firm Objectives

Decision Making Period	**P1**	**P2**	**P3**	**P4**	**P5**	**P6**	**P7**	**P8**	**P9**	**P10**	**Overall Mean**
Ethical Philosophy (n = 33)	6.68	6.92	6.79	6.30	6.02	5.88	6.03	5.76	5.62	5.70	61.70
Strategically Aggressive (n = 35)	3.50	3.27	2.71	2.89	2.14	2.06	2.09	2.40	2.17	1.94	25.17
Difference in Means	3.18	3.65	4.08	3.41	3.88	3.82	3.94	3.36	3.45	3.76	36.53

TABLE 4.3

Mean Ethical Augmentation for Strategically Aggressive Firms Based on Market Response

Decision Making Period	**P1**	**P2**	**P3**	**P4**	**P5**	**P6**	**P7**	**P8**	**P9**	**P10**	**Overall Mean**
Market Not Value Ethics (n= 16)	2.56	1.69	1.81	1.81	1.56	1.31	1.69	1.13	1.31	1.31	16.19
Market Values Ethics (n = 19)	4.32	4.63	3.47	3.79	2.63	2.68	2.42	3.47	2.89	2.47	32.74
Difference in Means	2.24	3.06	1.66	1.98	1.07	1.37	0.73	2.34	1.58	1.16	16.55

Correlations and descriptive statistics are featured in Table 4.1 for the independent variables as well as the dependent variable, which is the mean ethical augmentation allocation summed over all ten decision making periods. Dummy variables were used to indicate the firm identity treatment, as well as the favorability of market response. The mean ethical augmentation decisions for each treatment in each condition as broken down by decision making period are featured in Tables 4.2 and 4.3. To test Hypotheses 1 through 4, I constructed an initial PLS model containing each treatment and the main effects for the relevant data sets. Resampling through bootstrapping is used, which is a technique viewed as more conservative than other resampling methods such as jackknifing (Chatelin, Vinzi, and Tenenhaus 2002). Path coefficients (γ), standard errors, and t-values were computed on the basis of 500 resampling iterations as a conservative prescription also derived from the literature (Chatelin, Vinzi, and Tenenhaus 2002). The results of the analysis are featured in Table 4.4, revealing that a significant portion of the variance in the ethical augmentation construct for the overall model is explained by the experimental treatments (R^2 = 0.616).

TABLE 4.4

Partial Least Squares Results for Resampling with Bootstrapping

Independent Variables	**γ**	**s.e.**	***t* - statistic**	***p*-value**
Treatment Effects				
Firm Identity	0.60	0.08	7.62	0.00 ***
Market Response	0.27	0.08	3.58	0.00 ***
Managerial Ethical Predispositions				
Corporations' Role in Society	0.23	0.09	2.64	0.01 **
Ethical Skepticism	0.06	0.12	0.36	0.36
Business Responsibility	0.07	0.11	0.68	0.25
Controls				
Work Experience	0.13	0.08	1.92	0.03 *
Number Employees	-0.11	0.06	1.58	0.06
Gender	-0.04	0.08	0.93	0.17
Overall Model	***R²***			
Ethical Augmentation	0.616			

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

Hypothesis 1 is supported as ethical augmentation levels by firms with ethics predominating their identity are significantly greater than all other firms regardless of market response. Likewise, for Hypothesis 2, firms with strategic aggression predominating in their identities ethically augment at levels significantly less than firms with ethics predominating in their identities when market response does not indicate that overconformity results in competitive advantage. Relevant to both hypotheses, the PLS estimates for these treatments are featured in Table 4.4 demonstrating a path estimate of 0.60 for firm identity, which is significant at $p < 0.001$. The mean ethical augmentation levels differentiated by firm identity and broken down by decision making period are also featured in Table 4.2.

Hypothesis 3 is tested by comparing ethical augmentation levels for strategically aggressive firms when market response indicates a competitive advantage for overconformity, as opposed to when market response indicates no competitive advantage for overconformity. The differences in the mean ethical augmentation levels for these two treatments, as broken down by decision making period, are depicted in Table 4.3. Confirming Hypothesis 3, ethical augmentation levels increase significantly when market response for ethical overconformity is favorable as denoted in Table 4.4 with a path estimate of 0.27, which is statistically significant at $p < 0.001$.

Hypothesis 4 is partially supported, as neither managerial perceptions of business responsibility nor personal ethical skepticism of business significantly influenced the levels of ethical augmentation ($p > .25$). Managerial perceptions of corporations' role in society prove a significant influence on the ethical contribution levels, however, with a *p*-value of < .01. This result is actually quite interesting considering that these measures were considered concurrently with the powerful treatment of the firm objectives, and were demonstrated to have no effect in pretesting. It seems that the managers in the study followed their firm objectives closely, yet their personal ethical predispositions regarding how corporations ought to behave in society still had a significant effect on ethical augmentation levels. It is likely that if the same ethical scenarios were presented to strategic decision making groups this effect would be muted. The result does suggest, however, the powerful influence of personal ethical predisposition even when firm objectives through identity dominate decision making. Managers who seek particular ethical decision making stances for their firms would likely do well to seek employees with personal ethical belief systems that reflect those embodied and actualized by the firm.

Further Evaluation of Zero Contributors

In the wake of the counterintuitive result for Hypothesis 4, I conduct an additional analysis to investigate participants' individual characteristics. In particular, I am interested in whether the zero contributing participants possessed any significant differentiating characteristics from those participants that contributed at least some of their firm resource endowment to ethical augmentation, regardless of their randomly assigned treatment condition. Contributing zero across all periods is the profit maximizing behavior according to game theoretical predictions, however across similar studies, very few participants' decisions actually correspond with this prediction (Davis and Holt 1993; Zelmer 2003). Therefore, to understand whether any significant differences exist between the zero contributors and all other participants in this study, I craft a logistic regression model where the dependent variable is either a zero contributor or a non-zero contributor.

The results for the post-hoc logistic regression model are featured in Table 4.5. The model reveals that no personal predispositions or demographic characteristics as conceptualized in my study adequately differentiate a zero contributor from a non-zero contributor. These variables, moreover, explain a mere portion of the total variance, with a Cox and Snell R^2 value of 0.164. Garnering additional data that might identify and delineate the meaningful characteristics differentiating zero contributors from non-zero contributors in a similar research setting, therefore, represents a potentially important future research contribution.

TABLE 4.5

Logistic Regression Results for Zero Contributors

Independent Variables	Unstandardized Parameter Estimate	Standard Error	Wald	p-value
Managerial Ethical Predispositions				
Corporations' Role in Society	-0.25	0.13	3.72	0.05*
Ethical Skepticism	-0.09	0.10	0.76	0.38
Business Responsibility	0.08	0.11	0.51	0.48
Controls				
Work Experience	-0.08	0.05	2.32	0.13
Number Employees	0.00	0.01	0.16	0.69
Gender	1.60	1.18	1.85	0.17
Overall Model	**Cox & Snell R Square**			
Zero Contributors	0.164			

$^{\dagger}p < .10$; $*p < .05$; $**p < .01$; $***p < .001$

Trend Analysis

I employ statistical trend analysis to test Hypothesis 5 that the strategic decision making outcomes as evolving from the core premises of the firm identity remain stable over time. Figures 4.1 and 4.2 provide graphical representation of the ethical augmentation levels for the various conditions over time. To empirically evaluate the underlying structure of the participants' ethical augmentation allocations across multiple decision making periods, specifically, I conducted one-way ANOVA with repeated measures. Statistical analysis of the mean investments for each of the ten periods did not yield any significant effects for the overall data (Wilks' $\lambda = 0.82$, $F_{(9, 59)} = 1.46$, $p > 0.10$). When considered separately, neither of the ethical firm identity (Wilks' $\lambda = 0.75$, $F_{(9, 24)} = 0.88$, $p > 0.10$) nor the strategically aggressive firm identity (Wilks' $\lambda = 0.74$, $F_{(9, 26)} = 0.99$, $p > 0.10$), furthermore, exemplified time effects. These insignificant results provide support in demonstrating the stability of the firm identity predominated by ethics or by strategic aggression. This analysis allows one to conclude the powerful effect of identity in ensuring consistent and stable firm decision making over time, largely independent of relevant competitor behavior within the same industry. Future research examining such decision making across even greater numbers of decision making periods could prove worthwhile to help clarify potential time and learning effects in such settings if, in fact, such effects are present.

FIGURE 4.1

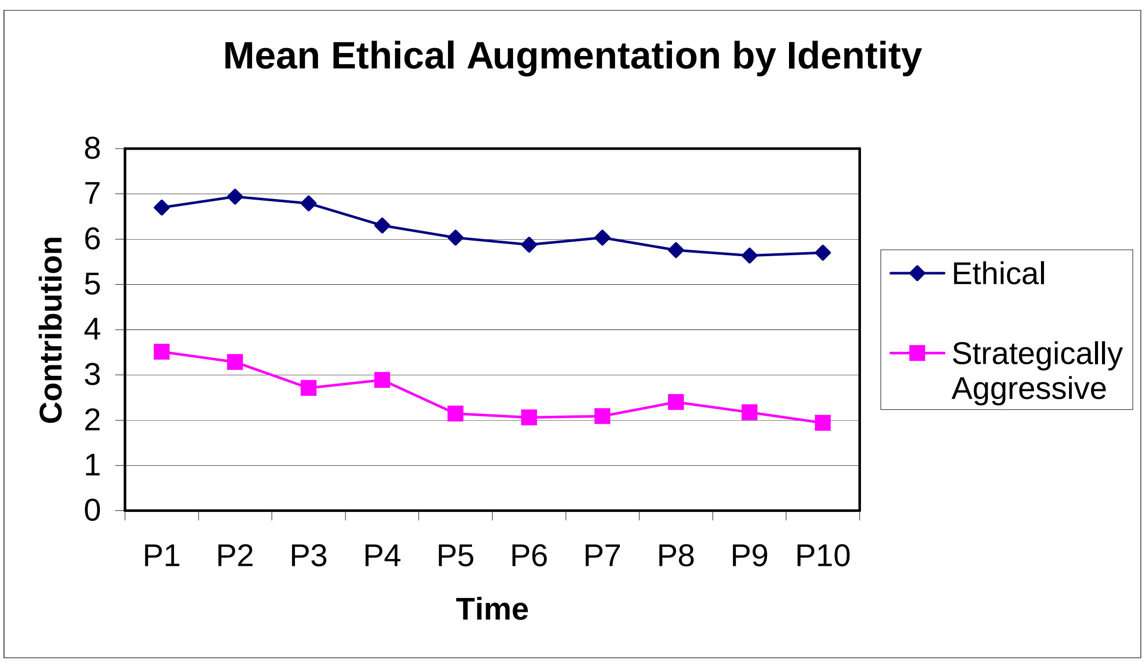
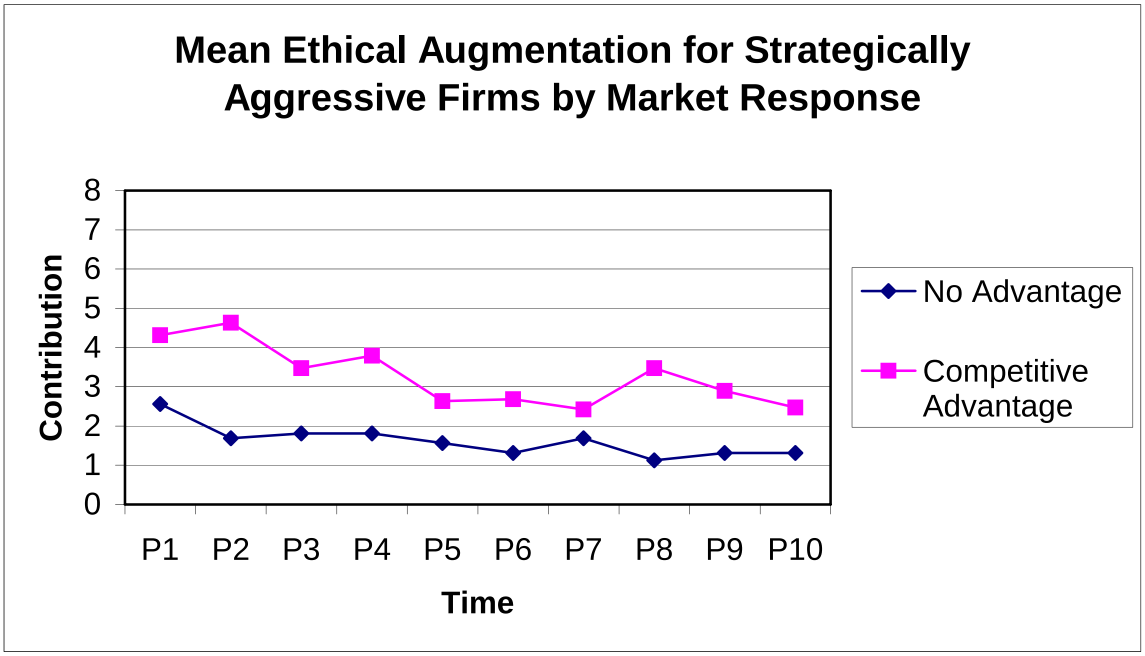


FIGURE 4.2



Linkage between Experiment and Theory

Both the Nash equilibrium predictions as well as the Pareto efficient game theoretical strategies, in light of the decision making scenarios, were discussed. Not surprisingly, supporting a number of prior studies employing similar experimental methodologies, neither of these predictions was confirmed. Indeed, for firms with identities predominated by ethics, only occasionally did $\alpha = 1$ evidencing total allocations to ethical augmentation. To be more precise, rather than averaging ethical augmentation decisions approaching \$10 per period, which is predicted by game theory, these allocations averaged just over \$6. Conversely, when firms' identities were rooted in strategic aggression, game theory predicted an optimal contribution of \$0 in demonstration of the free-rider problem discussed above. Again, in contrast to theory, ethical augmentation levels for strategically aggressive firms overall averaged slightly more than

$2.50. When market response indicated no advantage, this average was reduced to just over $1.60, still substantially departing from $0.

As shown, ethical augmentation allocations for strategically aggressive firms increased significantly when market response indicated an advantage was to be gained for such behavior. Because the experimental protocol kept the exact market value or reward to be gained from ethical behavior purposefully vague, it is impossible to calculate the extent to which these decisions correspond to mathematical theory. Future research is needed to better understand the precise increases (decreases) in ethical augmentation allocations across a range of projected market response and competitive advantage.

LIMITATIONS, FUTURE RESEARCH, AND CONCLUSIONS

As with more exploratory research carving out new theoretical perspectives, specifically ethical conformity decisions in strategic marketing decision making, this study was subject to a number of limitations. For one, the time intensive nature of the particular experimental economics methodology, which was also restricted to small numbers of participants in a single setting, kept the overall sample size relatively small. The sample size, however, is quite consistent with experimental economics research in marketing (e.g., Amaldoss and Rapoport 2005). Yet, a larger sample size may have allowed for further post-hoc analyses of the data to help refine understanding of the theoretical relationships. The strength of the effects, however, provided support that the sample was a quality one. Indeed, the hypotheses were largely supported demonstrating the powerful influence of firm identity on ethical augmentation decisions related to strategic marketing decision making.

Another potential limitation is the use of individual managers to represent the decisions of entire firms. Although this practice is not uncommon in experimental economics research in marketing (e.g., Srivastava, Chakravarti, and Rapoport 2005), future research would benefit from investigating these decisions as they unfold among strategic marketing teams or groups of decision makers. Particularly in the context of ethically charged issues, decisions made by a group are likely to be formed collaboratively and driven by the larger goals and mission of the firm. Individual managerial predispositions regarding ethical issues are increasingly likely to infiltrate and perhaps misguide judgment related to ethical issues when the checks and balances of a larger group of decision makers are not in place. However, the results of the experimental investigation provided preliminary evidence that firm identity may serve as an effective rubric for ethical decision making, muting the effects of many managerial predispositions regarding ethical issues in business. In particular, of the three dimensions of personal ethical beliefs assessed, only one proved a significant factor in ethical augmentation allocation decisions in the experimental setting.

A final constraint is that this study was necessarily one-sided in that only overconformity decisions were considered in the investigation. To truly conceptualize the ranges of ethical conformity in strategic marketing decision making, the practice of underconformity must be considered and empirically evaluated. Underconformity, or the conscious subversion of ethical norms by a firm with its marketing practices and behaviors implies a number of different parameters, including assumptions of information and disclosure that preclude it from being considered in the current game theoretical predictions. In particular, firms that underconform likely make ethical augmentation decisions for quite different reasons than firms that simply conform. Indeed, the reasons and motivations underlying underconformity are far less understood and have been largely speculated in the literature. Similarly, firms that underconform do not provide signals or information to disclose underconforming behaviors as overconforming firms do. Therefore, such a conceptualization must include probabilities of disclosure, which would necessarily complicate the current empirical examination.

This is not to imply that such a research question could not be addressed, however, and in fact, ethical underconformity in marketing represents a vast and compelling area of promising future research. For example, unlike overconformity, a theoretical depiction of ethical underconformity remains elusive. In addition to the lack of a coherent theoretical framework, to my knowledge no research has attempted to quantify the magnitude of underconformity in marketing or its likely implications. The outcomes of underconformity likely have significant firm as well as societal consequences including consumer deception and alienation, product recalls, litigation against firms, or potentially even the loss of human life due to testing and development inadequacies, safety errors, or production failures.

Through the current investigation, I have provided an empirical assessment of the theoretical premises of ethical overconformity advanced in the marketing literature (e.g., Martin, Johnson, and McCluskey 2007). Using an experimental economics methodology, I overcame some of the limitations that would have prevented direct examination of such behaviors as they unfold in a business setting. In particular, I was able to directly evaluate the impact of firm identity on ethical augmentation decisions consistent with the theoretical perspectives of ethical conformity. Firm identity, in particular, proved a powerful driver of ethical augmentation decisions and the central hypotheses were largely confirmed. Market response, moreover, proved a significant motivator of firms with identities rooted in strategic aggression. This simple yet elegant introduction of a competitive advantage as related to ethical conformity was demonstrated to be powerful in significantly increasing ethical augmentation levels for even the most strategically aggressive firms.

In addition to the direct experimental manipulations, the results provided greater insights into firm identity and the additional ways in which it impacts firm decision making behavior in marketing. Interestingly, my results supported the foundational authors' (i.e., Albert and Whetten 1985) definition of firm identity as central, distinctive, and enduring. Specifically, when evaluated over time, identity held firm decision making constant. In similar experimental settings where decision makers were not provided the objectives and goals of a firm identity, patterns and learning effects emerged over time in the data across decision making periods. In the current study, however, no significant time effects were identified. One-way ANOVA with repeated measures provided a formal test for time effects in the trend analysis described above. I conducted additional analyses to confirm this was the case, although I do not report them as part of the study methodology. For example, simple mean comparisons showed no significant differences between any of the decision making periods when juxtaposed against one another. I conducted PLS analyses separately for each third of the decision sets by discarding period one and then employing periods two through four as a dependent variable, periods five through seven as a dependent variable, and periods eight through ten as a dependent variable. The results of these individual analyses were not significantly different from one another, and in fact, differed only minimally. This further substantiates the power of the firm identity as enduring over time and as an effective force in driving strategic marketing decisions in a predictable manner.

An additional conclusion concerned the role of identity in explicating the underlying firm motivations for different approaches to ethical decision making. Although this paper is a descriptive (as opposed to normative) account of ethical phenomena in marketing, I emphasize that I do not intend to conclude or characterize firms with identities predominated by strategic aggression as being unethical. Indeed, one may argue from a utilitarian perspective that a contribution to the greater societal good is beneficial regardless of the motivations for such a contribution. Such a philosophical and highly contextual question is beyond the scope of this analysis and study findings. In contrast to illuminating how firms ought and ought not to behave, the research goal was explanation of strategic decision making phenomena that might contribute to marketing theory and practice.

Finally, the results offered a number of managerial implications. First and foremost, the findings highlighted the importance of the firm identity in establishing a larger firm objective related to ethical decision making. Indeed, it was demonstrated that firm identity was powerful enough to mute most individual ethical opinions and predispositions, which themselves can be some of managers' most deeply ingrained personal beliefs. Thus the importance of aligning the firm identity with the desired organizational ethical stance cannot be overemphasized. The single significant measure of personal ethical beliefs, however, provided another insightful managerial prescription in that, regardless of the strength and predominance of the firm identity, managerial ethical predispositions may infiltrate strategic decision making. In light of this, selecting important strategic decision makers with ethical predispositions aligned with those of the firm can prove critical for supervisory personnel and other firm leaders. In such cases, the strength of personal ethical predispositions would become less of a factor when firm leaders may be confident that those predispositions ultimately further the larger goals and objectives of the firm.

As a final managerial insight, I again draw upon Albert and Whetten's (1985) foundational definition of firm identity as central, distinctive, and enduring. This study empirically confirmed these core premises to truly underpin the firm identity. As such, managers must not overlook the importance in creating, facilitating, and maintaining the desired firm identity. The results demonstrated the manner in which identity may be diffused in one narrow domain of the firm, namely ethical decision making in strategic marketing. One can speculate the vast areas of reach within the firm that the identity can potentially color and shape. In addition, because it can take significant amounts of time to change, the firm identity must be carefully monitored to prevent it from shifting in an undesirable direction. Although this study provided empirical evidence of merely one segment of the larger, more complex picture of firm identity as a whole, it was clear how profound further insights on firm identity potentially may be from a more holistic perspective. Research has only begun to explore the far-reaching implications of firm identity in the many facets of strategic decision making. Evidence from this study, involving ethically charged marketing decisions related to firm identity, will hopefully provide a building block for future work to continue to enhance an understanding of this rich and promising research stream.

MEASURE APPENDIX PAPER TWO

Questionnaire Measures: Managerial Ethical Predispositions and Control Variables

Attitudes toward the social role of corporations (Scale adapted from Williams [1982]) (Composite reliability = .78; AVE = .54; Factor loadings .67 - .77; scale items anchored by 1 = "strongly disagree" and 7 = "strongly agree")

1. The management of a corporation is responsible to many definable interests in society.
2. The internal conduct of business affairs is not a matter for public involvement.[r]
3. The purpose of the corporation can be quite simply summarized as service to society.
4. Standards for corporate performance must be left to the determination of management.[r*]
5. Management should be the sole determinant of a corporation's objectives.[r*]

Skepticism towards business ethics: Consumer normlessness (Scale adapted from Durand and Lambert [1985] and Lambert [1980])
(Composite reliability = .80; AVE = .57; Factor loadings .59 - .93; scale items anchored by 1 = "strongly disagree" and 7 = "strongly agree")

1. Companies are usually out to make a lot of money even if it means violating ethics and taking unfair advantage of consumers.
2. Most durable products could be made to last much longer but are made to wear out quickly to necessitate repurchase.
3. If people really knew what businesses do to deceive and take advantage of consumers they would be upset.

Business responsibility scale for marketing personnel (Scale adapted from Peters [1972]) (Composite reliability = .80; AVE = .57; Factor loadings .66 - .83; scale items anchored by 1 = "strongly disagree" and 7 = "strongly agree")

1. To maximize profits should be the single most important goal of business.[r*]
2. Business is an institution of society and therefore the problems of society should also be important problems for business to help solve even if there is no immediate monetary reward for the efforts.
3. The main reason I care about what the consumer thinks and wants is because that is the way to please him/her and get a bigger share of the market. [r]
4. The main reason a company should actively take care about the effects of it marketing strategy decisions upon the public's welfare is because this makes for good public relations which in turn makes for more sales.[r]

Controls
1. Years work experience
2. Number of employees for whom you are primarily responsible
3. Gender

[r] Indicates item reverse-coded
[*] Indicates item removed.

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CHAPTER 5

PAPER THREE

ETHICAL AUGMENTATION DECISIONS IN BUSINESS MARKETS: THE ROLE OF INFORMATION STATES

Abstract

In this study, I investigate how knowledge of upstream supplier characteristics and past behaviors influence marketing managers' ethical augmentation (attention to ethics in some facet of the product development or marketing activities) decisions made at the customer interface. Specifically, I extend the concept of an information state to the marketing manager to explore interfirm decision making given ethically charged information asymmetries. Drawing from agency theory, I derive hypotheses and test them using an experimental economics methodology, which involved an investment game format where marketing managers weighed a number of factors in an exchange decision with an upstream supplier. In total, 247 practicing managers comprised 117 dyads in the studies reported. Using Partial Least Squares for data analysis, the creation of various information states proved a powerful force in influencing actual investment decisions by managers as well as stated likelihood to make strategic leveraging decisions in the marketplace. Ultimately, transparency of information about an upstream supplier's ethical behavior created information states for marketing managers that either limited or increased the capacity for ethical augmentation by the focal firm.

INTRODUCTION

Marketing managers' decision making environments are increasingly complex (Glazer, Steckel, and Winer 1992; White, Varadarajan, and Dacin 2003). Perhaps even more so than for managers in other functional domains, marketing managers must solicit and interpret data, ideas, and social and institutional forces to make decisions that are often the most visible firm communications (Little 2004). Particularly in the wake of globalization and outsourcing, where firms partner with supplier firms continents away to create new products and develop new processes, marketing managers' decision making is subject to increasing complexity and performance ambiguity (Carson 2007; Hill and Dhanda 2004; Friedman 2006).

It has been suggested that the complexity characteristic of marketing decisions is accelerated in the context of ethical issues (e.g., Brewer, Chandler, and Ferrell 2006; Murphy, Laczniak, Bowie, and Klein 2005). Nonetheless, recent accounts in the business press have signaled to firms the likelihood of favorable market response from products with ethical attributes, or ethical augmentation (Engardio 2007; Taylor et al. 2007). Further, recent academic literature provides evidence of performance benefits accrued from social responsibility initiatives (Luo and Bhattacharya 2006). These accounts, however, primarily focus on the customer-firm interface involved with ethical marketing decisions. To date, no research has investigated the upstream product inputs and development considerations that firms must evaluate prior to leveraging a product's ethical attributes in the marketplace. Specifically, the pressing question of how upstream supplier characteristics and behaviors might influence managers' ethical decisions made at the market interface has been largely neglected.

How a focal firm's knowledge of an upstream supplier's ethical behavior affects that focal firm's willingness to leverage ethics in the marketplace is the research question central to this study. I am interested, moreover, in how information is configured to influence a marketing manager's likelihood of ethically augmenting relevant product offerings. I suspect that a clear and transparent account of the upstream supplier's ethical behavior will reduce performance ambiguity and thus influence the marketing manager's propensity to leverage ethics along a continuum and as a result of the upstream supplier's behavior. However, in the absence of such knowledge and thus heightened performance ambiguity, I expect that a marketing manager will rely on characteristics from the focal firm identity to determine the appropriate degree to which that firm will leverage ethics in the marketplace.

Ethical augmentation (or attention to ethics in product development or marketing activities involved with a product) is conjectured to be a natural consequence of ethical overconformity by firms (Martin, Johnson, and McCluskey 2007), and is executed through the various marketing behaviors and programs involved with a product. Ethical augmentation can span the full range of marketing activities from upstream product inputs, to downstream customer interface activities. Thus ethical augmentation can encompass behaviors that exceed customer expectations in upstream marketing activities such as those involving product development, testing, content, and fabrication. Likewise ethical augmentation activities may exceed customer expectations in a firm's downstream or customer interface activities such as marketing communications, promotions, advertising, distribution, and pricing. As with any strategic marketing initiative, in some instances ethical augmentation can be leveraged by a firm in the marketplace for competitive advantage (e.g., Hamel and Prahalad 1989; 1994).

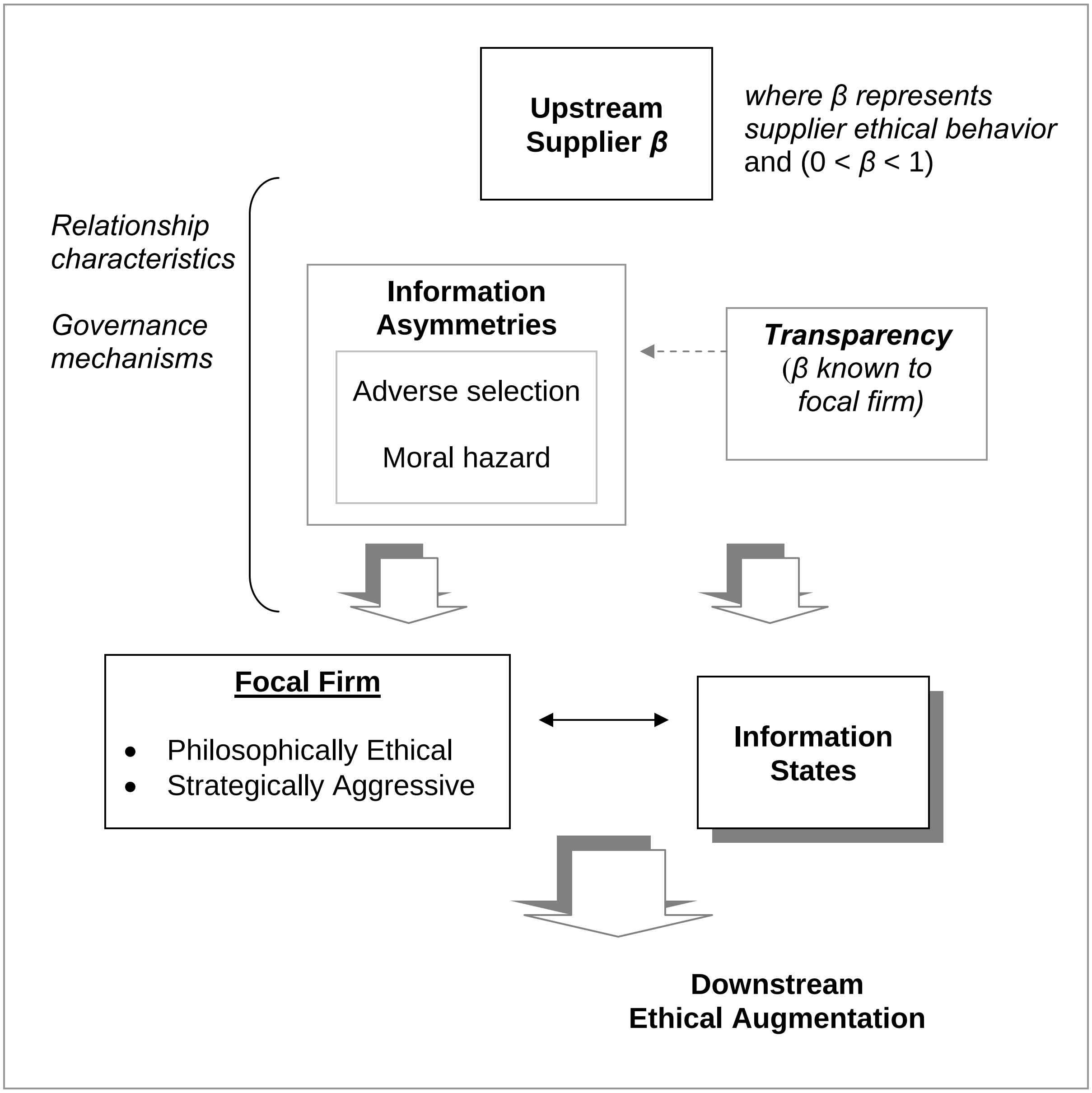
To date, the scope of ethics as related to interfirm marketing relationships has been limited to the context of the relationship itself. The ethical and legal implications of marketing exchange, for example, have been shown to intersect based on the nature of the relational properties involved (Gundlach and Murphy 1993). Additionally, opportunistic and sometimes unethical behavior by an interfirm partner may erupt in a number of different forms and to varying degrees of egregiousness (e.g., Wathne and Heide 2000). Indeed, the marketing literature suggests that exchange relationships in business markets may be subject to a variety of external and internal forces, some of which have ethical implications, that influence the outcomes and overall success of downstream and customer interface marketing activities. These accounts, however, fail to discuss the conditions surrounding how an upstream supplier's past ethical behavior potentially influences the manner in which focal firm's downstream product offerings are leveraged for their ethical attributes.

In a related stream, the business-to-business marketing literature has emphasized the importance of information and its acquisition, dissemination, and utilization in strategic marketing contexts (e.g., Cannon and Perreault 1999; Glazer 1991; Mohr and Nevin 1990). Although marketing models in this domain have proven useful, the literature cautions that traditional managerial decision making models' applicability is limited to more stable and largely predictable market situations (Chakravarti, Mitchell, and Staelin 1979; Perkins and Rao 1990). Given the turbulence and volatility of today's competitive marketing landscape, it seems an updated conceptualization of the role of information in decision making in light of extreme information asymmetries is both timely and appropriate.

To address the research question, therefore, I investigate the powerful role of information in business market situations by advancing the concept of an information state, which accounts for turbulence and dynamism coupled with significant information asymmetries. This conceptualization allows me to articulate the conditions whereby information states enhance or inhibit firms' downstream ethical augmentation decisions. Specifically, *information states* are the unique frames of mind or collectives of knowledge possessed by marketing decision makers at the time of decision making. Information states involve knowledge derived from the market in general or from the industry, from competitors and their behavior patterns, from technology or specifics of the task environment, or from characteristics embedded in the focal firms' relational knowledge stores (Johnson, Sohi, and Grewal 2004). Thus, the various potentially predominating influences involved with information states are examined in the context of marketing managers' downstream ethical augmentation decisions given upstream supplier considerations.

FIGURE 5.1

Conceptual Depiction: Dissertation Paper Three



A conceptual depiction of the research context is featured in Figure 5.1 above. Specifically, I cast the ethical augmentation marketing decisions evolving from information states according to an agency theoretical perspective. An agency theoretical framework (e.g., Bergen, Dutta, and Walker 1992; Jensen and Meckling 1976) grounds the phenomena and relationships central to the study in the context of adverse selection and moral hazard problems, which are described below. Due to its emphasis on information and potentially critical conditions of asymmetry, agency theory provides an appropriate theoretical backdrop for the interfirm marketing decisions in question. In particular, agency theory suggests that information asymmetries can potentially have significant limiting and enabling effects on focal firms' downstream marketing decisions given the nature of upstream supplier relationships. Agency theory also emphasizes the value of transparency of knowledge of an upstream supplier, which is important to a focal firm to minimize performance ambiguity regarding downstream marketing decisions.

Accordingly, this paper probes information states involving the ethical behavior of an upstream supplier that potentially predispose managerial decision making regarding ethical augmentation decisions at the market interface. I conduct economic experiments with 247 experienced managers to isolate the effects of information states on interfirm investment decisions and managers' subsequent likelihood of leveraging ethics in the marketplace. In addition, I evaluate how information states are influenced by a lack of information or an absence of transparency described below. The results inform the marketing ethics literature by investigating upstream supplier considerations that potentially affect downstream ethical marketing practices. In addition to shedding light on unexplored ethical considerations, this paper also provides future research directions and implications for marketing practice.

The paper begins with an expanded definition of information states and a discussion of their relevance to the marketing literature. In particular, I detail how information states enhance understanding of interfirm decision making in marketing ethics given recent trends such as globalization and outsourcing. I continue by grounding these concepts in agency theory, highlighting the information asymmetry problems that are germane to the research question. After development and explication of the hypotheses, I discuss the experimental economics methodology and set forth game theoretical predictions for the study relationships. Next, I provide details for the Partial Least Squares analyses and interpret the results of the experiments. I conclude with a discussion of the study limitations, the future research questions that unfold, and the implications of the findings for marketing practitioners.

CONCEPTUAL BACKGROUND AND HYPOTHESES DEVELOPMENT

Information States

Information states and their outcomes in consumer decision making have been explored in the literature (see Smith 2004), however, they have yet to be applied to strategic decisions at the manager or firm level. To craft a definition of information states as relevant to marketing strategy questions, I derive from early marketing literature to understand the meaning and value of information to marketing managers, to the marketing function, and to firms. Specifically, Glazer (1990) conceptualizes information as "data that have been organized or given *structure*—that is placed in *context*—and thus endowed with meaning" (p. 2; emphasis in original). This definition is highly germane to the study of information in an interfirm context as well as to marketing strategy in general.

Consequently, I define information states as the unique collective of information (organized data given structure, placed in context and endowed with meaning) coupled with other influential knowledge possessed by a marketing decision maker at a given time, utilized in decision making. Similar to a manager's frame of mind, an information state exists for a limited and finite period of time concurrent with a decision. Information states exist independently of how the information was acquired or how that information is subsequently deployed or executed beyond the decision. An information state can be comprised of both internal and external data, and may be characterized by various degrees of completeness or proximity. Indeed, an information state may involve a manager possessing very little relevant information at all or nearly complete ambiguity, such as when experiencing a firm crisis for example (e.g., Grewal, Johnson, and Sarker 2007). Conversely, an information state may involve nearly complete relevant knowledge such as in highly routinized decisions like straight rebuy purchases in business markets, for example (e.g., Doney and Cannon 1997). Information states can involve knowledge derived from multiple sources, including the market in general, the industry, competitors and their behavior patterns, customer preferences, technology or specifics of the task environment, or even characteristics embedded in firms' relational knowledge stores (Johnson, Sohi, and Grewal 2004).

The role of information states as they relate to managerial decision making in marketing, to date, has not been considered in the literature. Related concepts that have been examined in the marketing literature include managerial mental models (Day and Nedungadi 1994), managerial prediction (Mahajan 1992), cognitive style (White, Varadarajan, and Dacin 2003), and other managerial factors such as experience that influence decision making (e.g., Glazer 1991; Glazer and Weiss 1993; Perkins and Rao 1990). There are, however, importance divergences between these concepts. For example, mental models evolve from managers' desire to make sense of their firm's competitive position and market situation (Day and Nedungadi 1994). They are mechanisms that help alleviate some of the large degrees of uncertainty that can exist in the firm environment, obfuscating decision making (Pfeffer and Salancik 1978).

Ultimately, a degree of uncertainty may always be present in spite of the quality of the mental model formulated by the marketing manager. Conversely, an information state includes all managerial knowledge (or lack thereof) present at the time of decision making. As such, an information state includes elements of the relevant managerial mental models as well as the remaining lack of relevant information involved with the decision at hand.

Marketing managers are considered to be the firm leaders in responding to the continuously changing firm environment (White, Varadarajan, and Dacin 2003), which sets the stage for a related stream of literature on managerial decision making. In this literature, the cognitive styles of marketing decision makers influence their ability to interpret the volatile and turbulent environment to determine which markets the firm will enter, which customers they will serve, and which competitors they will challenge. Naturally, these decisions have a dramatic effect on considerable resource allocations by the firm (Palmatier, Gopalakrishna, and Houston 2006), which heightens the importance of marketing decision making. Conceptually related to work exploring mental models, White, Varadarajan, and Dacin (2003) investigate the role of managerial cognitive style and posit that it is comprised of relatively stable mental structures and processes employed to perceive and evaluate information. Based on this conceptualization, marketing managers' cognitive style should vary significantly, as mental processing will be highly individualized and unique to each decision maker. As such, cognitive style may be a single input into an information state and may affect managerial processing based on that information state. Similar to mental models, cognitive style is a single element encompassed by the larger framework of an information state related to the decision at hand.

Whereas cognitive styles and managerial mental models may be subsumed in the larger concept of managerial information states, in another related yet distinct concept, managerial confidence in prediction may evolve as a result of the managerial decision maker's information state (Mahajan 1990). Research on confidence in prediction posits that a manager's accessibility-diagnosticity framework (see Feldman and Lynch 1988) for decision making plays a central role in such prediction. This research suggests that overconfidence in prediction is a result of managers' overestimating the diagnosticity of the information they possess (Mahajan 1990). Extending this work, information states encapsulate the perceived diagnosticity of information in addition to countervailing information and domain expertise, which are suggested to influence prediction. These facets, along with numerous others described above, combine and interplay to formulate the information state. An information state, furthermore, exists independent of whether or not a prediction occurs and is not concerned with the prediction accuracy or managerial confidence.

Information States in Interfirm Decision Making

The role of information in strategic decision making is a critical one, particularly given important boundary conditions. Specifically, research has demonstrated situations where increased availability of information can actually hinder decision making and reduce its quality and effectiveness (Glazer, Steckel, and Winer 1992). With regard to marketing strategy, information about firm performance in light of relevant customers and competitors is used to update and refine managerial representations or mental models (Day and Wensley 1988). In addition, managerial representations are created and shaped through iterative processes of knowledge seeking, selection, and modification based on outcomes (Day and Nedungadi 1994), which may be linked to the larger concept of absorptive capacity (e.g., Cohen and Levinthal 1990; Zahra and George 2002). Given absorptive capacity, managers' past experiences in the competitive environment and in relationships with important interfirm partners, for example, can potentially accumulate allowing critical knowledge stores to develop (Johnson, Sohi, and Grewal, 2004). An important caveat of absorptive capacity, however, is the presence of prior knowledge and experience upon which to create meaningful knowledge stores (Cohen and Levinthal 1990). In the absence of absorptive capacity generated from past knowledge and experience, however, firms lack the multidimensional benefits that accrue from having relevant knowledge stores in place (Johnson, Sohi, and Grewal 2004).

Clearly, even in the absence of structures that augment and aid in decision making, firms are forced to make critical decisions shrouded in ambiguity as they gradually accumulate sufficient experience and knowledge. These circumstances might involve firms' development of a new product (e.g., Doney and Cannon 1997), the entry into a new market (Folta and O'Brien 2004), or perhaps multiple facets of an entrepreneurial venture (Alvarez and Barney 2005). Indeed, it has been suggested that ambiguity and the importance of information are heightened for marketing managers due to the non-routine nature of marketing decision making coupled with the simultaneous convergence of people, ideas, and data from multiple and diverse sources that interplay in such decision making (Little 2004).

Research has demonstrated the potential for existing interfirm marketing relationships to reduce information asymmetries, allowing firms to navigate uncharted territory with more positive, predictable, and productive outcomes (Hoetker 2005; Wuyts and Geyskens 2005). The parameters and types of relational exchange take many forms, which have been categorized in the literature (e.g., Boyle, Dwyer, Robicheaux, and Simpson 1992; Cannon and Perreault 1999; Gundlach and Murphy 1993). A central component in these typologies is the value of information exchange to the overall performance of the relationship. For instance, it has been empirically shown that strong interfirm partner ties enhance and facilitate the transfer of complex information more effectively between those partners (Hansen 1999).

Although it is not a panacea for successful strategy or interfirm performance, and may even have important dysfunctional consequences for managers (e.g., Glazer, Steckel, and Winer 1992), the possession and exchange of information is generally regarded as a positive factor in strategic decision making. Cannon and Perreault (1999) define information exchange as the open sharing of information proving useful to both partners. Its importance in managerial decision making and firm performance has been emphasized, as researchers have declared successful decision making a direct function of information exchange (Glazer and Weiss 1993). Information exchange, conceptualized as a key connector in buyer-seller relationships, is extolled for improving new product development processes and leading to overall increased product quality (Cannon and Perreault 1999). In certain situations, information sharing can even reduce acquisition and operating costs (Cannon and Homburg 2001). At a minimum, information about the past behavior and performance of an upstream supplier provides a focal firm one tool, perhaps albeit a blunt tool, for predicting the future behavior and performance of that supplier. What is more, knowledge of a supplier’s past behavior and performance combines with other relevant knowledge to create an information state that better informs managerial decisions.

In outsourcing situations, particularly when the potential supplier is both geographically and relationally distant, accurate and relevant information about past behavior related to the current venture may be unattainable (Carson 2007). This inability to acquire information about an upstream supplier significantly heightens performance ambiguities for the focal firm, making prediction of the supplier’s behavior difficult if not impossible (Hill and Dhanda 2004). Information states, therefore, will be deficient of this critical knowledge. Selected firm strategies and new ventures, however, often necessitate partnering with upstream suppliers with whom the focal firm shares only loose or perhaps no prior ties (Friedman 2006; Wuyts and Geyskens 2005). In these situations, moreover, partnerships may form regardless of whether the focal firm has prior knowledge of the supplier's past behavior. When this is the case, I argue that information states will unfold in complex and contingent ways to influence managerial decision making.

Agency Theoretical Perspective

Interfirm agreements, or the marketing relationships between buyers and sellers, have long been characterized by the information asymmetries described above. These information asymmetries are also a cornerstone of an agency theoretical perspective on interfirm marketing relationships (Bergen, Dutta, and Walker 1992). Consistent with the research questions, agency theoretical perspectives typically consider the supplier in such a relationship as poised to possess more information about the focal exchange considerations, such as the product or service to be provided, than the buyer or customer firm (Mishra, Heide, and Cort 1998).

Agency theory expands on the asymmetries in information depth and domain configurations between buyer and supplier firms. Conceptually, information asymmetry is an example of a market imperfection, which enables a supplier to act opportunistically without being detected. Two sources of opportunism are possible, the first of which involves *adverse selection* or the ex ante misrepresentation of skills and characteristics. Mishra, Heide, and Cort (1998) argue that an adverse selection problem exists when buyers attempt to ascertain supplier skills and ability to provide goods or services at desired levels of quality prior to formation of a partnering agreement. Naturally, such an adverse selection problem may be increasingly complicated in an outsourcing situation when little information is known or can even be obtained about a potential supplier. Traditionally, signaling strategies executed by supplier firms in addition to various prequalification programs put in place by customer firms have been suggested as the primary mechanisms available for minimizing problems of adverse selection (e.g., Rao, Qu, and Ruekert 1999).

Second, information asymmetry also allows for opportunism in the form of *moral hazard* or failure to deliver on promised aspects of the product or service such as quality or performance attributes (Mishra, Heide, and Cort 1998). Moral hazard problems frequently are linked to cheating or other opportunistic behaviors by the supplier. The range of potential governance mechanisms that have been evaluated and classified in the literature propose solutions for mitigating moral hazard problems (e.g., Cannon, Achrol, and Gundlach 2001; Ghosh and John 2000; Wathne and Heide 2004; 2004). These forms of governance span from relational and normative in orientation to contractual, relying on monitoring and other more formalized checks and balances. Incentives and compensation, in addition to various forms of governance, have been found to deter moral hazard problems as a result of information asymmetries (Mishra, Heide, and Cort 1998).

In spite of the mechanisms that have been demonstrated as effective in subverting information asymmetry problems, instances may still occur where one party is better informed about aspects of the exchange than the other. In the context of my study, it is likely that asymmetries and conditions where behavior and performance of a supplier cannot be fully ascertained will influence information states in complex ways. Particularly with regard to past ethical behavior, mistakes and transgressions made by an upstream supplier can be detrimental if not devastating to firms (Brewer, Chandler, and Ferrell 2006). Because of the potentially harmful focal firm outcomes in light of ethical augmentation difficulties, I argue that the transparency or knowledge of an upstream supplier's past ethical behavior is increasingly important to the focal firm decision makers when leveraging the ethical attributes or augmentation of their products in the marketplace. When transparency exists, a focal firm minimizes the information asymmetries between it and the upstream supplier. Thus, transparency is important to a focal firm in that it reduces performance ambiguity for downstream marketing decisions.

To clarify, an upstream supplier's past ethical behavior (β) may span a continuum from completely ethical (β approaching 1) to completely unethical (β approaching 0), and may include any degree of ethical behavior in between ($0 < \beta < 1$). Based on the conditions outlined above, I argue that when transparency about such past behavior exists for a focal firm, that transparency will create information states that either limit or increase the capacity for firms' downstream ethical augmentation decisions. For example, when a focal firm's managerial decision makers are aware of past ethical behavior problems by an upstream supplier, they may simply avoid exchange or partnering with that supplier (e.g., Sullivan, Haunschild, and Page 2007). In contrast, the firm may pursue a partnership agreement with the ethically questionable upstream supplier but avoid downstream ethical augmentation, or perhaps simply limit the leveraging of ethical attributes in the marketplace. Regardless of the manner in which it is limited, I predict that when marketing managers of focal firms have knowledge including awareness of past ethically questionable behavior of an upstream supplier, the resulting information states created will limit downstream ethical augmentation by the focal firm.

> **Hypothesis 1a:** When β approaches 0, transparency creates information states that limit downstream ethical augmentation.

In contrast, transparency of information about an upstream supplier may reveal past ethical behavior or performance of that supplier. The more ethical that past behavior, or the closer β is to a value of 1, the more likely a focal firm's marketing managerial information states will increase capacity for downstream ethical augmentation. Not only are the deficiencies in knowledge within the information state reduced in light of transparency, when the valence of the ethical behavior known and contained in the information state is positive, decisions to ethically augment products in downstream markets can be made with increased assuredness.

> **Hypothesis 1b:** When β approaches 1, transparency creates information states that increase firm capacity for downstream ethical augmentation.

Information Asymmetries and Firm Identity

When knowledge of the upstream supplier is not available, or in the absence of transparency, I predict that focal firms will engage in ethical augmentation and subsequently leverage the ethical characteristics of their products differently. An agency theoretical framework considers multiple firm mechanisms, including both internal and external, that focal firms mobilize to cope with the information asymmetries between them and their suppliers as described above. Moreover, the literature informs on strategies for mitigating adverse selection and moral hazard problems used by focal firms in their dealings with upstream interfirm partners (e.g., Celly and Frazier 1996; Mishra, Heide, and Cort 1998; Stump and Heide 1996). In one vein of research, organizational culture is predicted to play a role in the selection of governance mechanisms in the face of information asymmetries (Wuyts and Geyskens 2005). Specifically, in this work the prevalence of organizational culture dimensions (Hofstede, 2001) is predicted to influence levels of detailed contract definition and close partner selection.

Similar to the current study, these authors' research considers information asymmetries in an interfirm context. I argue, however, that the concept of organizational culture provides an incomplete explanation of a focal firm's response to information asymmetry in an interfirm setting. Although it is one important facet, organizational culture is a phenomenon that exists internal to the firm (Gioia, Schultz, and Corley 2000; White, Varadarajan, and Dacin 2003). As such, a perspective limited to organizational culture fails to include external firm considerations such as reputation and stakeholder evaluations, for example. These external factors have demonstrated critical to firm performance as well as long-term success and perhaps even survival (Scott and Lane 2000). Clearly, when considering ethical augmentation decisions that are highly visible firm strategies to be leveraged at the customer and market interface, external evaluations warrant consideration in addition to the multiple internal evaluations such as organizational culture (Simöes, Dibb, and Fisk 2005).

I argue that identity is a richer concept with potentially greater explanatory power for interfirm strategic marketing decisions. By definition, identity is the combinative construal of firm culture, history, structure, characteristics, status and reputation with competitors, customers, and society at large (Brown, Dacin, Pratt, and Whetten 2006). Such a definition encompasses the important characteristics of organizational culture in addition to the multiple influential firm forces that likely interplay into information states in various configurations. Identity involves all the attributes that are central, distinctive, and enduring to a firm (Albert and Whetten 1985). Because identity is comprised of both internal and self-reflective components as well as external construal of activities, I hypothesize that managers' response to information states will be heavily influenced by the components and configurations of the firm identity.

The marketing literature has suggested that identity gives rise to a number of critical firm behaviors and strategic initiatives (e.g., Brown, Dacin, Pratt, and Whetten 2006; Simöes, Dibb, and Fisk 2005). Not only does identity characterize firm interactions with stakeholders and determine the nature of customer and competitor interactions (e.g., Heide and Wathne 2006), identity also influences the formulation and implementation of marketing programs. Marketing messages and communications conveyed by the firm are considered a reflection of the identity, which requires consistency between marketing actions and organizational mission, as well as in all permutations of firm meanings, symbols, and values as conveyed through marketing communications (Simöes, Dibb, and Fisk 2005). Because these marketing activities and communication mechanisms are posited to resonate with institutional actors and stakeholders, firms' attention to ethical augmentation decisions at the heart of this study is increasingly critical and warrants consideration.

Thus, when faced with an absence of transparency in their interfirm marketing relationships, I predict that marketing managers' information states are influenced by the focal firm identity (τ) in ethical augmentation decisions. Just as with the extent of ethics in the upstream supplier's behavior, a focal firm may possess a philosophical emphasis on ethics in its identity (τ_{ei}). In contrast, a focal firm may choose to ethically augment downstream product offerings for reasons of strategic advantage or favorable market response. This is likely to be the case for firms with identities predominated by strategic aggressiveness (τ_{sa}), for example. Ultimately, extent to which ethics or another strategic focus predominates in a firm's identity will influence the manner in which that firm will ethically augment their products and subsequently leverage ethical augmentation in the marketplace (e.g., Scott and Lane 2000).

With regard to the downstream ethical augmentation decisions central to the study, I predict that when ethics predominate in a firm's identity (τ_{ei}), that firm will be more reluctant to ethically augment downstream products when the ethical behavior of an upstream supplier (β) cannot be ascertained. In spite of any marketplace advantages that might be gained by leveraging ethics, focal firms with ethics predominating in their identities will be more likely to approach such situations with caution, taking time to validate all supplier behavior and performance related to the various elements of the product ethical augmentation (Simöes, Fisk, and Dibb 2005).

Conversely, I hypothesize that focal firms with identities predominated by strategic aggressiveness (τ_{sa}) will leverage ethics or other consumer desired attributes in the marketplace as a direct function of their information states. Therefore, in the context of a focal firm's downstream product offerings, when favorable market response is indicated for ethical augmentation, focal firms with identities predominated by strategic aggressiveness will be more likely to leverage ethics in the marketplace regardless of what they know (or do not know) about an upstream supplier's ethical behavior (β).

Hypothesis 2: In the absence of transparency in the upstream supplier relationship,

> **a:** to the extent that ethics predominate in the focal firm identity, information states limit the focal firm's (downstream) propensity to ethically augment its product offering.
>
> **b:** to the extent that strategic aggression predominates in the focal firm identity, information states do not affect the focal firm's (downstream) propensity to ethically augment its product offering.

METHOD

Because of the highly complex nature of marketing managerial information states, the examination warranted a controlled environment where background factors, potential confounds, and other external influences could be minimized. Thus, I used an experimental economics methodology as the study context to better isolate and evaluate the unique role of information states in interfirm decision making. Also, because in certain circumstances ethical information was involved in the decision making scenario, an experimental setting allowed better control of social desirability biases (e.g., Camerer 2003).

Research Design

I suspected that information states would significantly impact the focal firm, and thus influence marketing manager decision making. To explore this facet of a business market transaction, I investigated the role of information states in exchange situations with a focal firm marketing manager and an upstream supplier. I employed a bargaining game, as suggested in experimental economics prescriptions, where the study context involved the various degrees of transparency and ethical behavior in an ethical augmentation decision as described above. The simple negotiation decision between the marketing manager and supplier was linked in a uniformly specified relationship (Davis and Holt 1993), and closely mirrored the actual decision making situation central to the study.

The *investment game*, which is sometimes referred to as the trust game (Berg, Dickhaut, and McCabe 1995), provided an ideal context for examining my question. The investment game allowed for explicit modeling of the interfirm resource allocations in light of information asymmetries and the knowledge deficiencies characteristic of transactions between focal firms' marketers and upstream suppliers. Derived from the broader subset of bargaining games, investment games involve an investor who possesses an initial endowment of resources to invest with a trustee.

Traditionally, the game unfolds in two simple stages where the investor determines an amount from his or her initial endowment to invest with a trustee and that amount is increased at a particular rate. Subsequently, the trustee determines how much of that new amount to return to the investor and how much to keep for him or herself. Much as in business market transactions, the initial investment is a good faith effort based on some willingness to predict that another decision maker (a partnering firm in this sense) will reciprocate a risky move at a cost to themselves (Camerer 2003). Also parallel to business market transactions, and germane to my research question, this strain of bargaining game incorporates problems of information asymmetry, which cannot be guaranteed contractually. I describe the details of my adaptation of the investment game experiment below.

The study participants in this adaptation of the investment game interacted similarly to the original Berg, Dickhaut and McCabe (1995) design, except both partners were assigned to firm roles and were informed of various pieces of knowledge about their own firms and about one another to create information states. In particular, in my modified trust game the investor was the marketing manager for the focal firm and the trustee was the upstream supplier. The decision making partners were instructed to consider the information they were given in addition to maximizing profits, which were derived from their individual payoffs given the investment decision. Certain ethical information corresponding to my question was provided to each participant in their individual scenario, which shaped the information state relevant to the transaction. In a sense the players were primed with the creation of an information state (e.g., ethical behavior of the supplier; details of their firm history and background; etc.) related to the nature of their exchange arrangement. Finally, to heighten the insufficiency of information regarding the decision and to preclude the likelihood of prior relationship formation between the firms, the scenario was cast in the context of a new product development decision, which is an interfirm marketing situation traditionally characterized by information asymmetries for marketing managers of the focal firm (Doney and Cannon 1997).

Game Theoretical Predictions

In stage one, marketing managers are given a \$10 new product development budget. Of this amount, marketing managers (*m*) must decide how much to invest with the supplier (*s*) with whom he or she has been anonymously paired to make the new product described in the scenario. The invested amount is denoted I_m. After marketing managers make this allocation decision, their amount invested is increased by three, resulting in a total endowment to the supplier of $3I_m$. In stage two, each counterpart supplier is given the increased endowment and must decide how much to return to the marketing manager in the form of the value added in new product development, and how much to keep for his or her own. The amount returned to the marketing manager is denoted $k_s(3I_m)$. As such, the marketing manager's decision I_m is represented {0, 1, 2, …, 10}, whereas the supplier's decision is denoted

$$k_s\colon \{0, 3, \ldots, 30\} \rightarrow \{0, 3, \ldots, 30\}, \tag{5.1}$$

satisfying the condition $0 \leq k_s(3I_m) \leq 3I_m$. It follows that for marketing managers the potential payoff is

$$P_m(I_m, k_s) = \$10 - I_m + k_s(3I_m), \tag{5.2}$$

and for suppliers, the potential payoff is

$$P_s(I_m, k_s) = 3I_m - k_s(3I_m). \tag{5.3}$$

A participant's initial wealth is denoted W_i. Following Berg, Dickhaut, and McCabe (1995), if participants have strictly increasing indirect utility function for wealth, given by $V_i(W_i + P_i(I_m, k_s))$ for all $i = m, s$, and each participant, i, maximizes their indirect utility $V_i(\cdot)$, then all suppliers should decide (dominant game theoretic strategy) to keep all the invested endowment, that is $k_s(3I_m) = 0$ for all I_m. If marketing managers infer the supplier's likely decision (dominant game theoretic strategy), then they should invest nothing with them regardless of the business situation described. It follows that the subgame perfect prediction for marketing managers in this investment experiment is to invest nothing for the new product development or

$$N_0 : I_m = 0 \text{ for all } m. \tag{5.4}$$

If a positive contribution is, in fact, invested with the supplier by the marketing manager or $I_m > 0$, the suppliers' subgame perfect prediction is to return nothing. Specifically,

$$N_1 : \text{If } I_m > 0, \text{ then } k_s(3I_m) = 0, \text{ for all } s. \tag{5.5}$$

The collective literature on trust and reciprocity in investment games, beginning with Berg, Dickhaut, and McCabe (1995) evidences that rarely are zero contributions made by either investors or their counterparts, in this case marketing managers and suppliers. My study further extends these notions by predicting that investment amounts will differ significantly based on the information state created for the decision maker. Specifically, when the past history and behavior of the supplier is known, investments by marketing managers should be significantly greater for marketing managers (m_e) partnering with ethical suppliers as opposed to marketing managers (m_q) partnering with suppliers whose ethical behavior is questionable, even when that information is not directly related to the suppliers' predisposition to reciprocate in the particular scenario. In other words,

$$Pm_e(I_m, k_s) = \$10 - I_m + k_s(3I_m) > Pm_q(I_m, k_s) = \$10 - I_m + k_s(3I_m). \tag{5.6}$$

Moreover, when suppliers have information regarding their firm's past ethical history they will be likely to return a greater portion of their endowment to the marketing manager when that past history involves ethical activities as opposed to when that past history involves ethically questionable activities. Rather,

$$Ps_e(I_m, k_s) = 3I_m - k_s(3I_m) > Ps_q(I_m, k_s) = 3I_m - k_s(3I_m), \tag{5.7}$$

where s_e represents a supplier with a firm history characterized by ethical behaviors, and s_q represents a supplier with a firm history characterized by ethically questionable past behaviors. Finally, when marketing managers have no information regarding the ethical or ethically questionable behavioral proclivities of the supplier, I hypothesized that marketing managers will rely on their own firm identity in their investment decision. In this case, when suppliers' behavior is unknown, marketing managers with philosophically ethical firm identities (τ_{ei}) will be less likely than marketing managers with strategically aggressive identities (τ_{sa}) to invest with suppliers to further ethical augmentation that will be leveraged in the marketplace. I predict that

$$P\tau_{sa}\left(I_m, k_s\right) = \$10 - I_m + k_s\left(3I_m\right) > P\tau_{ei}\left(I_m, k_s\right) = \$10 - I_m + k_s\left(3I_m\right). \quad (5.8)$$

Experimental Procedures

Participants were assigned at random to the role of either marketing manager or supplier. Each marketing manager was also randomly linked with a supplier who served as his or her exchange partner. All decision making was done anonymously, and even after the study concluded the personal identities of participants' exchange partners were not revealed. After seating and welcoming participants, I explained the general play of the game and ensured them their responses remained confidential and anonymous. The objective was described as a new product venture that required an investment decision between a focal firm's marketing manager and an upstream supplier. In the context of the decision making scenario and with the information presented, the actual investment decisions were at the discretion of the firm's marketing manager and the supplier from the partnering firm. Both marketing managers and suppliers read a short description of their decision, which helped create the information state relevant to the scenario.

The marketing managers were given an initial allocation of \$10, and were told they may invest any amount with their anonymous counterpart the supplier. The instructions informed them that any amount invested would represent their investment in the new product, and any amount kept would be retained for their own. The \$10, they were told, was dedicated to the new product project and did not represent their entire marketing budget. All participants were informed that the invested amount would be tripled, giving the supplier three times whatever cash the marketing manager chose to invest. Of that amount, suppliers were told they may keep any of that amount for themselves, and whatever amount they returned would represent the valued added to the new product for the marketing manager.

After the supplier made his or her allocation decision, play of the game ended. Participants were informed of this, and thus all players knew their decisions occurred in the context of a one-shot transaction. Furthermore, because all decision making was anonymous and play was not repeated, no relationship or reputation considerations affected the decision. By replicating a one-shot arm's length transaction between firms, I could isolate the effects of the information states of the managers and suppliers on the central decision. This allowed me to test my information states hypotheses without the potentially confounding influences of relationship building, friendship, or reputation preservation.

Immediately following the suppliers' decision, participants completed a brief questionnaire that evaluated their likelihood of leveraging the product in question in the marketplace as an ethically augmented product. Marketing managers indicated their likelihood of leveraging the product based on their information about the supplier and the situation in general. Suppliers were asked how likely they believed such a product would succeed in the marketplace if its ethical augmentation was leveraged, given what they knew about the scenario. Demographic information and questions about participants' personal ethical beliefs and opinions were also featured on the questionnaire.

Importantly, the questionnaire was administered prior to any disclosure of the results and distribution of the earnings. This timing was critical to ensure that responses would not be clouded by participants' overall feelings about the game such including the perceived fairness of the decision or any evaluations of their anonymous partner. Once all questionnaires were completed and collected the results were tabulated and conveyed to each participant confidentially. After a debriefing and request not to discuss the study with friends or coworkers who would subsequently participate, the participants were dismissed. From start to finish, the studies took about 30 minutes to complete.

Data Collection and Subjects

For the main study used in hypotheses testing, practicing managers as well as managers enrolled in executive development courses were recruited to participate in the studies. Handouts describing the research study were distributed in mass across two campuses of a large Northwestern university. These flyers briefly described the study as a strategic decision making game that required no more than 30 minutes of participants' time. The potential to earn between $20 and $30 was also emphasized in these communications. Qualification to participate entailed that persons have some managerial work experience. In addition to the on-campus recruiting, contacts with firms in the surrounding communities of both locations were contacted personally and asked to disseminate the information. Extensive follow-up communications and reminders further encouraged participation.

The study participants possessed an average of six years professional work experience beyond their undergraduate degrees, and were responsible for an average of 16 employees in their professional capacities. With regard to gender, the study was comprised nearly equally of men and women, as 49% of participants were women.

In total, 17 data collection sessions produced 251 participants for the study. Due to missing data, four individual responses were removed producing a final total sample of 247. Of the total sample, 129 participants were assigned the role of marketing manager and 118 participants were assigned the role of supplier. Although I am interested in individual firm performance, due to the nature of the experiments I examined the dyadic data in addition to the data for individual participants. Data collection produced a total of 117 dyads. The reason for the loss in numbers between the total sample and the number of dyads was attributable to odd numbers of participants in a session. If an odd number of participants attended a session, I ensured the extra participant was assigned to the role of marketing manager. In these instances, the nature of the game allowed the unmatched participants to remain unaware that he or she lacked a supplier partner. In this sense and due to the anonymity of the study, these responses were equally as valid as those from marketing managers paired with suppliers in complete dyads. Naturally, the same would not be true for a supplier without a dyad partner, as the suppliers' initial investment amount was completely contingent on the corresponding marketing manager's decision. Upon the study conclusion, unmatched marketing managers were paid the total $10 with which they began in an effort to create a fair outcome.

In the strategic decision making scenarios, each individual participant acted as the primary decision maker for his or her firm, assigned to the role of either a marketing manager or supplier. Because in practice strategic, new product development decisions involving important marketing and ethical investment considerations are typically reached by groups of managers as opposed to a single decision maker, this study serves as a preliminary investigation into managerial information states. Future research would benefit from investigating these information states with ethical considerations as they influence decision making in a firm setting, among groups of strategic marketing managers and suppliers.

Pretest and Manipulation Check

Prior to the data collection sessions with managerial participants, I conducted two pretests with advanced-level business students to ensure the experimental treatments were clear and effective and to verify the interpretability of the instructions. I performed the investment game according to my protocol, however, subjects competed for fictional tokens rather than dollars. In one setting the tokens were converted to extra credit points, and in another setting the tokens represented the number of times a student's name would be entered into a drawing for a gift certificate.

For the 56 total pretest participants, initial contributions by marketing managers were significantly greater ($p < .05$) for those exposed to the ethical treatment condition than for those exposed to the ethically questionable treatment condition. Similarly, for suppliers returns to marketing managers were significantly greater ($p < .05$) for those participants in the ethical treatment condition than for those in the ethically questionable treatment condition. In addition, for both marketing managers ($p < .001$) and suppliers ($p < .01$), the likelihood of leveraging ethics in the marketplace was significantly greater in the ethical condition than in the ethically questionable condition. As an additional manipulation check, in addition to the quantitative results from the pretest studies, respondents were asked to list and describe all factors they considered when making their investment decision. Responses to this open ended question were compiled, and provided further validation of the effectiveness of the experimental treatments, confirming that participants were using the information provided to guide their decision making as intended.

Conditions

The structure and parameters of the investment game were duplicated for both the transparency and non-transparent conditions. The payout structure and underlying game theoretical model was identical for both conditions. Specifically, neither condition allowed for relationship formation as all decision making remained anonymous. Similarly, in both conditions the propensity for opportunistic behavior on either side of the dyad was heightened, as the game was played in the form of a one-shot transaction in both settings absent any partner controls or governance mechanisms. To investigate the specific study hypotheses, the knowledge available to create information states was varied across conditions, which are described below.

Transparency condition. Participants read details of their firm situation to help induce the information states central to the study. To maximize the external validity of the experiments, the scenarios were crafted to mirror actual firm conditions and settings likely to be faced by managers at the time of similar decision making. As such, in each condition, participants read a scenario describing their firm situation. In the transparency condition, the firm situation included a brief discussion of the supplier's past ethical behavior that was read by the supplier as well as the marketing manager. Although the valence of that past behavior was clear (e.g., ethical vs. ethically questionable), it was limited in scope and was not directly linked to the decision context so participants' information states simply would not be a foregone conclusion of that knowledge. That and all information was purposefully limited, again, to reflect the reality of such a decision. Both marketing managers and suppliers knew that their partnering firms would produce the new product together, but beyond that, the discretion in investing was left to each participant individually. In this condition, marketing managers were given details of the supplier's past ethical behavior, but did not read details describing the identity of the focal firm for whom they worked. Suppliers in this scenario were provided information about the history of their firm's past ethical behavior, but had no information regarding the marketing manager's ethical predispositions.

Non-transparent condition. Again, the situation was described to induce information states using a firm scenario read by all participants. Information remained limited to the participants. In this condition, the marketing managers were told that they had no information regarding past ethical behavior of their corresponding supplier. They were, however, given a description of their own firm identity. Specifically, the marketing managers in the non-transparent conditions were given a brief description of their firm mission, goals, and strategic focus. These descriptions were derived and operationalized based on the literature. To convey the sense of an ethical identity, some marketing managers read a description of the emphasis on ethics at all levels of their firm, embodied by top management and encapsulated in firm mission, goals, and objectives (e.g., Murphy et al. 2005; Smith 1993). To convey a sense of a strategically aggressive identity, the remaining marketing managers read a scenario that described their firm's competitive focus, cutthroat tactics, and emphasis on winning at all costs (e.g., Ferrier 2001; Johnson and Sohi 2001). All suppliers in the non-transparent condition read a brief description of the business decision and nothing more. They were neither given information regarding their firm's history related to ethical behavior nor information regarding the corresponding marketing manager's firm identity.

Study Measures: Dependent Variables

Interfirm investment. In this study, I assessed ethical augmentation in two ways. First, I used the percentage contribution or interfirm investment made by each marketing manager and supplier. The percentage contribution demonstrated the amount each participant was willing to invest with his or her corresponding interfirm partner, while accounting for the fact that marketing managers and suppliers were given different starting endowments. As described above, marketing managers were given an initial endowment of resources and suppliers received three times the marketing manager resource contribution from which to make their decisions. Thus, although I analyzed separate models for individual marketing managers and suppliers, the percentage contribution to the new product or the interfirm investment metric allowed for direct comparison between marketing managers and suppliers.

Leveraging ethics. The willingness or likelihood of a marketing manager to leverage ethics in the marketplace was also a direct outgrowth of the conceptualization of ethical augmentation and was derived from the strategic intent literature (e.g., Hamel and Prahalad 1989; 1994). What is more, the extent to which the ethical attributes of a product were leveraged for competitive advantage in the market was an important strategic consideration of the study context. According to my development of the hypothetical relationships, the presence of transparency and the known behaviors of important upstream suppliers were posited to influence the manner in which a focal firm leveraged ethics in the marketplace. As such, I assessed the likelihood of the marketing manager leveraging the ethics of the product in the market as a way to evaluate ethical augmentation from another angle. In particular, I measured marketing managers' likelihood of leveraging ethics for the focal firm's product given what they knew about the situation. Immediately subsequent to their investment decision marketing managers were asked, "Based on what you know about the (*company name*) supplier, how likely would you be to advertise the new (*product name*) product in the marketplace as being very ethical?"

I was interested in the leveraging, and thus marketing, of ethical products at the customer interface, where the ethical dimensions were projected to garner competitive advantage for the firm. As such, understanding this construct from the perspective of the supplier warranted a different approach than the approach taken with the marketing manager. Specifically, a supplier's end customer in this scenario was his or her interfirm partner or the anonymous marketing manager with whom he or she was paired. Although in reality the leveraging of ethics is a decision restricted to the marketing manager, I was interested in understanding the suppliers' perspectives on such a decision as well. Therefore, I queried the supplier using a technique similar to the one used with marketing managers. Specifically, I asked, "Based on what you know about the (*company name*) Company, how successful do you think it would be for them to advertise the new (*product name*) product in the marketplace as being very ethical?" Importantly, as discussed above, this question was asked of both marketing managers and suppliers immediately following their investment decision but prior to disclosure of the results and payment of their earnings to eliminate the influence of these factors on their true opinions of leveraging the ethical attributes of the product.

Study Measures: Control Variables

To isolate the effects of information states created through the various study treatments and conditions, it was important to understanding and control for the influence of some opinions and beliefs held by the participants regarding ethics in business and in buyer supplier transactions. Specifically, assessing these beliefs was necessary to verify that the results of the decision making game were not simply functions of personal ethical predispositions. Thus, I adapted an instrument to assess different dimensions of participants' personal beliefs and opinions. The items featured on the instrument were derived from the literature in addition to published and accepted business ethics scales to assess individual perceptions about interfirm ethics as well as general opinions and beliefs regarding ethical firm practices. These scales accounted for nine total questions, which are featured in the measure appendix that follows (see Appendix A). All items were anchored from 1 to 7, with 1 representing "strongly disagree," and 7 representing "strongly agree."

Interfirm ethical beliefs. First, I examined participants' attitudes about importance of the ethical behavior of an upstream supplier or a business partner in general. After scanning the interfirm relationship literature (e.g., Heide and Wathne 2006) as well as the marketing and business ethics literature (e.g., Gundlach and Murphy 1993), I crafted four items evaluating participants' perceived importance of the ethical behavior of a business partner in an interfirm marketing situation. In addition to general questions about the importance of a partner firm's ethical behavior, the questions assessed how such behavior should affect a focal firm's decision to market a product as being ethical. As an example of a more general question I asked, "In general, the ethical behavior of a company's business partners (suppliers, distributors, etc.) is an important consideration for that company." To evaluate this phenomena in light of more specific marketing objectives, I asked "If a company wants to market a product to consumers on the basis of that product being very ethical, the company should be concerned about the ethical behavior of all their business partners (suppliers and distributors of the product)" where responses of 1 represented "strongly disagree," and responses of 7 represented "strongly agree."

General business ethical beliefs. Next I addressed more general business ethics perceptions using five items adapted from existing work (Froelich and Kottke 1991; Mudrack and Mason 1996). Specifically, this scale was designed to understand cases where individuals might perceive organizational interests to legitimately displace and overrule more conventional ethical standards of society. The scale evolved from work in educational psychology by Froelich and Kottke (1991), who were interested in potential conflicts between individual ethics or general ethical standards and the expectations or demands arising within an organization. These authors believed that in certain instances, the interests of an organization can take precedence over ethical standards that would prevail outside the context of the organization (Mudrack and Mason 1996). Participants indicated the degree to which they agreed with items such as “It is sometimes necessary for a company to engage in shady practices because its competition is doing so” and “An employee should overlook someone else’s wrongdoing if it is in the best interest of the company.” With regard to the questionnaire, responses of 1 represented “strongly disagree,” and responses of 7 represented “strongly agree.” All five items adapted from this scale were reverse coded so that higher scores would evidence stronger personal ethical convictions. These and all items featured on the study instrument are listed in full in the measure appendix.

Both the interfirm ethical perceptions scale and the more general business ethics scale were highly germane to my research questions. However, I also sought demographic information regarding each participant and his or her employment, as well as information regarding professional experience and responsibility. Thus, in addition to age and gender information, participants provided their occupation and years work experience, which has been linked to information use and the quality of decisions by marketing managers in previous research (e.g., Perkins and Rao 1990). Participants also stated the number of employees for whom they were responsible in their professional capacity.

Confidentially of the information was assured, and no revealing or identifying personal information was sought. In addition, the questionnaire was administered following play of the game but prior to disclosure of the results. Therefore, I was confident that responses to the questionnaire items were not artifacts of the participants’ satisfaction or dissatisfaction with the outcomes of the game. Further, by administering the questionnaire subsequent to the strategic decision making game, participants were less likely to perceive experimenter expectations about the decisions made in the course of the game.

Analysis: Dyadic Data

Because the situation central to the study involved dyadic decision making relationships, methodological prescriptions advise (Griffin and Gonzalez 1995) that the responses for dyad partners (in this case marketing managers and suppliers) are functions of one another. As such, the nature of the decisions violated the independence assumption for data analysis. Violations to independence preclude traditional parametric testing, as the effects of this violation may substantially bias results (Kenny and Judd 1986).

To evaluate the degree of interdependence between the responses from each side of the dyad, intraclass correlations (commonly denoted as ρ) should be examined (e.g., Fisher and Grégoire 2006; Griffin and Gonzalez 1995). Larger values of ρ represent a greater degree of correspondence between the responses from marketing managers and suppliers in the same dyad. For the focal variables of interest, the intraclass correlations for the 117 dyads were $\rho_{investment} = .39$ ($p < .01$), $\rho_{leverage} = .13$ ($p > .05$), $\rho_{interfirm\ ethics} = .19$ ($p < .05$), and $\rho_{generalethics} = .16$ ($p > .05$). Although two of the four values are not statistically significant, I adopt a nonparametric approach nonetheless as a conservative technique to address the violations of independence that do exist. Indeed, two of the four key constructs are not independent for the respondents within the dyad and thus not independent of one another.

Partial Least Squares Estimation

Given the characteristics of the study data, there are several reasons why partial least squares (PLS) estimation is the most appropriate analytical technique. First, PLS is structured as an iterative combination of regression and principal components analysis (e.g., Fornell and

Bookstein 1982), which is appropriate given the dyadic context of the study. Specifically, PLS is considered a “soft” modeling technique, which does not make the hard assumption of independence of observations (Chin 1998; p. 315), addressing the partial violation identified above. For this reason, PLS has become an increasingly popular approach for analyzing dyadic data (e.g., Fisher and Grégoire 2006; Howell and Hall-Merenda 1999).

Second, PLS avoids distributional assumptions making this estimation approach particularly germane to experimental economics methodologies, which are subject to analysis limitations due to their frequent violation of the normal distribution assumption (Friedman and Sunder 1995). Instead of using traditional parametric significance testing, therefore, PLS allows for resampling with replacement (such as bootstrapping) to estimate the significance of the parameters. Finally, in consideration of the theoretical framework, specifically due to the novelty of studying information states and ethics in a marketing theoretical context, PLS is appropriate when the substantive theoretical framework is not well defined in the literature (e.g., Chin 1998; Hulland 1999). For these reasons PLS estimation, specifically using the statistical package PLS-GRAPH version 3.0 (Chin 2003), was used to evaluate the effectiveness of the experimental treatments and to analyze the study measures generated from the hypothesized relationships.

RESULTS

Measure Validation

Prior to evaluating the individual hypotheses, I analyzed the scale items for the two multi-item measures featured on the questionnaire by conducting a single confirmatory factor analysis (CFA) for each sample of marketing managers and suppliers for measure purification using partial least squares (PLS) methodology. Given the unique characteristics of dyadic data in addition to the unique characteristics of experimental economics data, which I detail above, PLS is a more appropriate analytical technique than ordinary confirmatory factor analysis methods. PLS, however, does not provide fit statistics.

Individual item loadings as well as construct composite reliabilities and average variance extracted (AVE) statistics are featured in the appendix and are reported for each sample. In accordance with methodological prescriptions (Hulland 1999), I retained all items with loadings greater than .50. All items loaded significantly and substantively on their respective constructs ($p < .001$). I calculated composite reliabilities for each construct (Fornell and Larcker 1981), and find that each construct demonstrates acceptable internal consistency, with each reliability value approximating or exceeding .80 (Nunnally and Bernstein 1994). In addition, I calculated the average variance extracted (AVE) statistics for each construct. The recommended AVE benchmark of .50 (Fornell and Larcker 1981) was met for each construct in each sample, demonstrating that more than half of the variance of the indicators should be accounted for.

To assess discriminant validity, I computed the square root of the AVE values for each construct and compared these values to the correlations between the constructs. As shown in Table 5.1, the largest correlation between constructs was between interfirm ethical beliefs and general business ethics predispositions ($r = .48$) for the marketing manager sample. This value, however, is less than the square root of AVE for the interfirm ethical perceptions scale as well as the general ethical predispositions scale ($\sqrt{.50} = .71$), in evidence of discriminant validity. An examination of the cross loadings, furthermore, evidences that no item loaded more strongly on another construct than it does on the construct it is intended to measure.

Hypotheses Testing

Correlations and descriptive statistics are featured in Table 5.1 for the independent variables as well as the dependent variables, which are the calculated percentage contributed and the likelihood of leveraging ethics for the particular situation. Dummy variables were used to indicate the supplier ethical behavior treatment for the transparency conditions as well as to represent the firm identity treatment in the non-transparency conditions.

TABLE 5.1

Mean, Standard Deviations, and Correlations: Results for Marketing Manager and Supplier Samples

	Marketers		Suppliers		Correlations[a]					
	Mean	s.d.	Mean	s.d.	1	2	3	4	5	6
1. Interfirm Investment	0.61	0.27	0.39	0.25	--	0.04	-0.01	0.02	0.12	-0.07
2. Leverage Ethics	4.42	2.09	4.82	1.55	0.19	--	-0.15	-0.13	0.07	-0.17
3. Interfirm Ethics	5.93	1.45	5.72	1.62	-0.00	-0.17	--	0.32	0.29	0.28
4. General Ethics	6.08	1.33	6.09	1.33	0.05	-0.18	0.48	--	0.32	0.08
5. Work Experience	4.94	6.21	6.83	9.31	0.04	-0.15	0.24	0.15	--	0.11
6. Gender (m = 0; f = 1)	0.48	0.50	0.51	0.50	0.05	-0.06	0.14	0.17	-0.10	--

[a]Correlations for marketing manager sample are in the lower triangle, and correlations for supplier sample are in the upper triangle.

I constructed two PLS models to test Hypotheses 1 through 4, which were subject to different conditions of transparency testing different configurations of information states. Because the underlying questions of transparency differed, the four hypotheses warranted two separate models for the transparent and non-transparent conditions. Resampling through bootstrapping was used, which is a technique viewed as more conservative than other resampling methods such as jackknifing (Chatelin, Vinzi, and Tenenhaus 2002). Path coefficients (denoted γ), standard errors, and t-statistics were computed on the basis of 500 resampling iterations as a conservative prescription also derived from the literature (Chin 1998). The results of the analyses are featured in Table 5.2, and are separated by the dependent measure examined as well as the experimental condition. In Model 1, the valence of the supplier ethical behavior known due to transparency explained about 18% of the variance in marketing managers' investment decisions. Strikingly, in this condition the supplier ethical behavior explained more than 56% of the variance in marketing managers' likelihood of leveraging ethics in the marketplace.

TABLE 5.2

Partial Least Squares Results for Resampling with Bootstrapping: Marketing Managers

Model 1

Transparent Supplier Ethics (*β* value known)

	Interfirm Investment				Leverage Ethics			
	γ	**s.e.**	***t* stat**	***p*-value**	**γ**	**s.e.**	***t* stat**	***p*-value**
Supplier Ethics **(H1a, b)**	0.10	0.11	1.26	0.10†	0.62	0.09	7.14	0.00***
Interfirm Ethics	0.15	0.20	1.15	0.12	-0.17	0.17	1.06	0.14
General Ethics	0.21	0.23	1.63	0.05*	0.16	0.13	1.05	0.14
Work Experience	0.08	0.11	0.64	0.26	-0.06	0.08	0.50	0.31
Gender	-0.00	0.12	0.40	0.34	0.01	0.08	0.05	0.48
	R^2 = .178				R^2 = .561			

Model 2

Non-Transparent Supplier Ethics (*β* value unknown)

	Interfirm Investment				Leverage Ethics			
	γ	**s.e.**	***t* stat**	***p*-value**	**γ**	**s.e.**	***t* stat**	***p*-value**
Marketer Identity **(H2a, b)**	0.01	0.15	0.58	0.28	-0.16	0.12	1.12	0.13
Interfirm Ethics	-0.32	0.13	2.29	0.01**	-0.16	0.16	0.76	0.22
General Ethics	-0.24	0.29	0.94	0.17	0.19	0.29	1.01	0.15
Work Experience	-0.11	0.13	0.43	0.33	-0.16	0.14	0.64	0.26
Gender	0.09	0.13	0.71	0.24	0.23	0.11	1.99	0.02*
	R^2 = .180				R^2 = .162			

†*p* < .10; **p* < .05; ***p* < .01; ****p* < .001

For Hypothesis 1a and 1b, the results were in the predicted direction, but were marginal for the marketing managers' interfirm investment as a representation of ethical augmentation ($\gamma = .10$; $p \leq .10$). However, when conceptualizing ethical augmentation as the likelihood to leverage ethics in the marketplace, the results showed the supplier past ethical behavior to be a significant determinant of ethical leveraging ($\gamma = .62$; $p < .001$) supporting Hypothesis 1. The discrepancies between these models seems to suggest that managers were not willing to practice what they preached, so to speak. In other words, although marketing managers stated a willingness to leverage ethics in the marketplace when a supplier was known to be ethical in the past, they still maintained reservations about investing their tangible resources with that supplier. Conversely, the results also suggest that even if a manager refused to leverage a product as ethical in the marketplace when the supplier's past behavior indicated ethical indiscretions, the same managers were willing to invest their resources with suppliers, perhaps hoping to receive a more valuable return in spite of suppliers' reported ethical transgressions.

The results for Hypotheses 2a and 2b featured in Model 2 demonstrate a greater degree of consistency, however neither was significant. Specifically, the marketing manager identity had no effect on the interfirm investment amount as a measure of ethical augmentation. For stated willingness to leverage the product as ethical in the marketplace, strategically aggressive marketers indicated a greater willingness to leverage as predicted, however the effect was marginal ($\gamma = -.16$; $p \leq .13$). Thus, it seems that regardless of the focal firm identity, in the absence of transparency marketing managers were reluctant to invest with an upstream supplier about whom they lacked certain ethical behavior information.

I evaluated the role of managerial ethical predispositions in the context of upstream supplier transparency to control for personal values and beliefs. Importantly, managerial ethical beliefs related to their focal firm transactions with an upstream supplier had no effect on managers' interfirm investment decisions, nor on managers' willingness to leverage ethics in the marketplace. General ethical beliefs had no effect on the likelihood of leveraging ethics in the marketplace. These same beliefs, however, slightly increased marketing managers' interfirm investment with a known ethical supplier ($\gamma = .21$; $p < .10$).

In addition, when transparency between an upstream supplier and a focal firm's marketing manager was unavailable, interfirm ethical beliefs significantly limited a marketing manager's interfirm investment in ethical augmentation ($\gamma = -.32$; $p < .05$). The likelihood of leveraging ethics in the marketplace absent transparency, however, was not affected by managerial interfirm-specific ethical beliefs. Similarly, general managerial ethical beliefs did not influence interfirm investments in ethical augmentation, nor did they affect the likelihood of leveraging ethics in the marketplace. Although mostly not statistically significant, these results indicate somewhat complex effects of managerial ethical predispositions on ethical augmentation decisions. Our understanding of information states may benefit from future research examining how managerial ethical predispositions relate to information states, and the conditions under which these factors influence ethical augmentation and downstream marketing decision making.

Post-Hoc Analysis: Supplier Decision Making

Although I presented no formal hypotheses regarding upstream supplier decision making in light of possible influences on supplier information states, I conducted similar PLS analyses using bootstrapping to evaluate supplier outcomes. The results have potentially interesting implications for future research as well as managerial practice. The PLS results for two models investigating supplier decision making are featured in Table 5.3.

TABLE 5.3

Partial Least Squares Results for Resampling with Bootstrapping: Suppliers

Model 1

All Suppliers

	Interfirm Investment				Leverage Ethics			
	γ	**s.e.**	***t* stat**	***p*-value**	**γ**	**s.e.**	***t* stat**	***p*-value**
Transpar. Identity	-0.08	0.09	1.04	0.15	-0.06	0.08	0.86	0.19
Interfirm Ethics	-0.18	0.16	1.18	0.12	-0.20	0.11	1.74	0.04*
General Ethics	0.08	0.20	0.67	0.25	-0.24	0.14	1.67	0.05*
Work Experience	0.14	0.09	1.69	0.04*	0.15	0.09	1.91	0.03*
Gender	-0.08	0.09	1.01	0.15	-0.08	0.10	0.99	0.16
	R^2 = .082				R^2 = .137			

Model 2

Transparent Supplier Identity: Ethical vs. Ethically Questionable

	Interfirm Investment				Leverage Ethics			
	γ	**s.e.**	***t* stat**	***p*-value**	**γ**	**s.e.**	***t* stat**	***p*-value**
Identity Valence	-0.05	0.15	0.41	0.34	0.01	0.13	0.44	0.33
Interfirm Ethics	-0.25	0.26	1.14	0.13	-0.23	0.15	1.43	0.07†
General Ethics	0.25	0.17	1.26	0.10†	0.32	0.15	1.77	0.04*
Work Experience	0.17	0.13	1.55	0.06†	0.16	0.13	1.41	0.08†
Gender	0.05	0.11	0.52	0.30	0.04	0.14	0.26	0.40
	R^2 = .175				R^2 = .165			

†*p* < .10; **p* < .05; ***p* < .01; ****p* < .001

When the supplier firms' ethical history was disclosed, they tended to contribute more to the interfirm investment amount, although the result was not statistically significant. Predictably, when the firm history was unknown they were less likely to surmise that marketers' leveraging of the product in question would be successful, however, this result was not statistically significant. When suppliers' firm history was disclosed, that information had no effect on either the interfirm investment or the beliefs about leveraging the product's ethical attributes. As mentioned above, the negative direction of the path for suppliers' interfirm investment given the valence of their firm ethical history indicates that suppliers labeled ethically questionable in the scenario perhaps felt they had something to prove to their interfirm partner by contributing more to the interfirm investment than their supplier counterparts with ethical firm histories.

Suppliers' personal ethical predispositions influenced their ethical augmentation decisions in complex ways, similar to the results for marketing managers. Regardless of transparency, the stronger suppliers' interfirm ethical beliefs and general ethical beliefs, the less likely they were to indicate that leveraging ethics in the marketplace based on the situation would be successful ($\gamma = -.20$; $p < .05$) and ($\gamma = -.24$; $p < .05$) respectively. Clearly, such a result warrants further examination in future work.

DISCUSSION AND IMPLICATIONS

This study extended the notion of information states in marketing, which have demonstrated effective in explaining consumer behavioral phenomena (e.g., Smith 2004), to the managerial and firm level. Conceptually, information states provide a more complete picture of the many various influences and characteristics that configure in marketing managers' decision making. Information states encompass all the relevant forces interplaying at the time of managerial decision making including knowledge about customers, competitors, and the market in general, as well as characteristics of the organizational environment and other conditions external to the firm. Information states may be comprised of more proximal information about an interfirm partner, as greater transparency exists between a focal firm and an upstream supplier. This broadened account, therefore, advances previous research that focused primarily on cognitive processes and mental states, such as cognitive style (White, Varadarajan, and Dacin 2003) and mental models (Day and Nedungadi 1994) as determinants of managerial decision making.

My examination of the research questions was tested with actual managers in a simple decision making context, allowing me to isolate the complex and contingent role of information states in strategic marketing scenarios. Because information states are a novel concept to marketing, the study emphasized ensuring internal validity to better appreciate the relationships in a controlled setting. To further advance this work, however, the next logical step would be to investigate the role of information states in a field setting amidst the numerous other distractions and environmental factors that likely contribute to the creation of managers' information states.

Importantly, the creation of information states as a result of knowledge about an interfirm partner's ethical behavior and practices proved a powerful force in influencing actual investment decisions by managers as well as stated likelihood to make strategic leveraging decisions in the marketplace. The results of the experiment showed that when ethical information about an upstream supplier was known to a marketing manager, information states were created that either limited or increased the capacity for ethical augmentation by a focal firm. Given increasing evidence of consumer preferences for ethically augmented products (e.g., Engardio 2007; Taylor et al. 2007), it is likely that comparable decisions will become more frequent and pressing for marketing managers. As such, enhanced knowledge of the creation of information states in this context may contribute to both marketing theory and practice.

The study also considered the formulation of information states in the absence of transparency. As addressed in the literature, the lack of proximal information and other relevant knowledge of an upstream supplier is a problem that has plagued interfirm decision making (e.g., Cannon and Perreault 1999). Given the predominance of marketing decisions diffused through networks of firms (e.g., Anderson, Håkansson, and Johanson 1994) and the increased prevalence of outsourcing for a host of marketing inputs and ideas (e.g., Carson 1997), lack of proximal information about upstream suppliers is likely to worsen in certain situations. This research made an initial step in conceptualizing the factors and considerations that influence information states in the absence of transparency between firms. Transparency, as discussed above, is critical to reduce performance ambiguities held by a focal firm. Confirming this assertion, my results evidence that focal firms and their marketing managers were less equipped to make interfirm investment allocations and leveraging decisions in the absence of transparency. Ultimately, when proximal information about upstream suppliers' ethical behavior was unavailable, marketing managers relied less on characteristics of their firm identity and more on their individual and personal ethical predispositions to guide decision making.

To further appreciate the formulation of information states when critical decision aspects are unknown, I derived from knowledge on firm identity. Firm identity, as opposed to perspectives on organizational culture for example, provided a richer conceptualization of the various factors upon which firms are likely to draw in the absence of sufficient knowledge. I argued that, in the absence of transparency regarding the behavior of an upstream supplier, a marketing manager would draw upon his or her focal firm identity in the formulation of an information state to make ethical augmentation decisions. The experimental results found that firm identity influenced both interfirm investment and ethical leveraging decisions in the directions predicted, however, these results were not significant. This study outcome suggests that future research is needed to clarify the role of firm identity in the creation of information states. For example, although firm identity is a richer and more complete concept influencing important firm decisions, additional research may be required to differentiate the various elements included in firm identity to appreciate how each uniquely impacts information states. Because there is a dearth of empirical research on firm identity, future work must continue to explore its complex effects on marketing decision making.

Finally, the analysis controlled for the influence of personal ethical values and predispositions on decision making. As such, I examined the role of two different types of managerial ethical predispositions on ethical augmentation decisions. The effects were mostly not statistically significant, providing evidence that information states are largely influenced by proximal information about an upstream supplier's ethical behavior than by the individual manager's personal ethical beliefs as predicted. Managerial ethical predispositions, however, become more influential relative to the information state when the proximal information about an upstream supplier's past ethical behavior is unknown. In fact, contrary to past findings about firm identity (e.g., Gioia, Schultz, and Corley 2000; Scott and Lane 2000), in this study personal value systems and ethical beliefs were somewhat stronger influences on ethical augmentation decisions than was the influence of the firm identity. Future research critically is needed to examine these forces juxtaposed against managerial information states to identify potential boundary conditions where such effects may be muted or perhaps reversed.

Managerial Implications

The managerial nature of my question tested with qualified professionals informs marketing decision making on multiple fronts. Clearly the value of information has been addressed in past work. This study, however, conceptualizes information states that, by definition, influence most managerial decision making to some extent. Managers should be aware of the conditions that enable or inhibit decision making through the notion of an information state.

When transparency regarding the behavior of an upstream supplier was present, managers in the study made appropriate and effective ethical augmentation decisions in evidence of a reduction in performance ambiguity, which was demonstrated in the experiment. In the absence of that transparency, however, performance ambiguity was heightened as the quality of decisions deteriorated and personal values emerged as more influential in decision making. Thus, it is critical for managers to understand how information states characterized by deficiencies in relevant knowledge impact their evaluation of strategic situations. What is more, supervisors emphasizing the role of the firm identity in decision making must approach these decisions by their employees with caution, as personal ethical predispositions are likely to obfuscate or perhaps overpower the information state influencing such decisions.

Given the increasing prevalence of outsourcing and interfirm partnering wrought with ambiguity, furthermore, now more than ever it is essential for managers to improve their decision making abilities in spite of mounting knowledge deficiencies. Future research should strive to provide more practical managerial applications for developing and refining decision making in the wake of such deficiencies, aligned with the overarching mission and goals of the firm comprising its identity.

Conclusion

At a more abstract level, this study builds on the larger notion of ethics as a strategic and pragmatic consideration for firms and marketing managers. Given increasing tendencies for consumers to seek ethically augmented products, firms will continue to pursue ethics to meet customers' needs and gain competitive advantage in the marketplace. This study shows how information asymmetries unfold in ethical augmentation decisions, creating performance ambiguity between firms. The results suggest the potential for such decisions to create less than effective outcomes for marketing managers, focal firms, and suppliers. Clearly, further research is needed to better understand the complexities and contingencies involved with the study focal variables. Until such clarity is reached, managers would do well to approach interfirm ethical augmentation decisions with caution and careful consideration.

MEASURE APPENDIX PAPER THREE

Study Measures

Dependent Measures

Interfirm Investment (Outcome from investment game)
Calculated by dividing the amount invested with the interfirm partner by the decision maker's starting amount.

Leveraging Ethics (Items adapted from literature)
(Items anchored by 1 = "not at all likely" and 7 = "very likely")

Marketing Manager
Based on what you know about the (*company name*) supplier, how likely would you be to advertise the new (*product name*) product in the marketplace as being very ethical?

Supplier
Based on what you know about the (*company name*) Company, how successful do you think it would be for them to advertise the new (*product name*) product in the marketplace as being very ethical?

Control Variables

Interfirm Ethical Beliefs (New scale adapted from literature)
Scale items anchored by 1 = "strongly disagree" and 7 = "strongly agree"
(Marketing Managers: composite reliability = .78; AVE = .50; factor loadings .59 - .78)
(Suppliers: composite reliability = .75; AVE = .50; factor loadings .59 - .73)

1. In general, the ethical behavior of a company's business partners (suppliers, distributors, etc.) is important consideration for that company.

2. If a company wants to market a product to consumers on the basis of that product being very ethical, the company should be concerned about the ethical behavior of all their business partners (suppliers and distributors of the product).

3. The ethical behavior of a company's business partners (suppliers, distributors, etc.) is only important when the company is marketing an ethical product. [r]

4. If ethical products are shown to be very desirable to customers, a company should market their ethical products regardless of the behavior of their suppliers. [r]

General Business Ethics Beliefs (Scale adapted from Froelich and Kottke [1991])
Scale items anchored by 1 = "strongly disagree" and 7 = "strongly agree"
(Marketing Managers: composite reliability = .83; AVE = .50; factor loadings .58 - .76)
(Suppliers: composite reliability = .81; AVE = .50; factor loadings .58 - .86)

1. It is sometimes necessary for a company to engage in shady practices because its competition is doing so. [r]

2. An employee should overlook someone else's wrongdoing if it is in the best interest of the company. [r]

3. A supervisor should not care how results are achieved as long as the desired outcome occurs. [r]

4. There is nothing wrong with a supervisor asking an employee to falsify a document. [r]

5. Profits should be given a higher priority than the safety of a product. [r]

Demographic Control Variables

1. Years work experience

2. Gender

[r] Indicates item reverse-coded.

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CHAPTER SIX

DISSERTATION SUMMARY AND GENERAL CONCLUSIONS

In spite of years of progress, a cohesive framework has yet to capture the range of marketing practices involving ethics. This is surprising given the range of ethical marketing behaviors evident in the marketplace. Through three essays involving ethical conformity and ethical augmentation efforts related directly to marketing practices and behaviors, this dissertation provides a platform upon which marketing ethics research may be advanced.

In Paper One, I set the stage for empirical work investigating ethical overconformity in marketing by advancing a game theoretic model. Using a duopoly game, the mathematical models provide a more tangible illustration of how overtly ethical firms align with those that just conform to normative standards in their marketing practices. This work is particularly timely given that increasing numbers of consumers attest to valuing ethics in their purchase behaviors. As described in this paper, the literature suggests that firms will continue to go above and beyond societal and stakeholder expectations with regard to their marketing programs and behaviors. It is imperative that a more tangible and quantitative assessment of these behaviors enhance understanding of ethical conformity in marketing to promote empirical investigation and encourage serious scholarly research efforts on this subject.

The second manuscript provides an empirical examination of overconformity using an experimental economics methodology. Using a public goods forum, I adapt game theoretical predictions to understand firm behavior in the context of different firm identities. Ethical augmentation decisions executed by managers demonstrate ethical conformity given market response and are couched in two disparate firm identities. The results demonstrate that strategically aggressive firms will leverage ethics in the marketplace when the expected market response is favorable. When no such market response is expected, ethical augmentation by strategically aggressive firms diminishes whereas ethical augmentation for firms that intrinsically value ethics in their identities remains stable regardless of market response. This study is the first to empirically examine ethical conformity decisions in such a manner, using practicing managers making real investment decisions.

Similarly, in Paper Three empirical evidence is provided for a more focused question of ethical augmentation in marketing. Cast against the backdrop of globalization and the increasing prevalence of outsourcing, in this paper I evaluate how the ethical behaviors and practices of an upstream supplier affect a focal firm's decision to leverage ethics in the marketplace. Using an experimental economics study to maximize internal validity, I explore marketing managers' information states in the context of ethical augmentation decisions involving an upstream supplier. The context of the study provides external validity in that practicing managers make investments in ethical augmentation in the presence various information states. Importantly, with this large set of dyadic exchanges I find that information states can enhance or inhibit a marketing manager's propensity for ethical augmentation in the marketplace, with downstream product offerings at the customer interface.

Interestingly, in both Papers Two and Three, the personal ethical predispositions of managers demonstrated to have complex influences on investments in ethical augmentation and willingness to leverage ethics in the marketplace. Specifically, in Paper Two, managerial ethical predispositions had an impact on ethical augmentation decisions even in spite of the strong effects of the firm identity on these decisions. Similarly, in Paper Three, when marketing managers' information states were comprised of more substantial deficiencies in knowledge, those managers relied on their personal ethical predispositions to a greater extent in their ethical investment decisions and in their stated likelihood to leverage ethics in the marketplace. These findings warrant further examination, and may suggest important boundary conditions to the role of firm identity in ethical situations in marketing. The practical applications of these findings, furthermore, suggest instances where managers perhaps should consider the ethical predispositions of their employees or other firm decision makers. Ultimately, managers may ensure important firm outcomes by selecting decision makers whose personal ethical predispositions align with those of the firm identity. My results show that these managerial predispositions are deeply held and, in certain circumstances, play a more significant role than previous thought.

Conclusion

Firms' leveraging of ethics in the marketplace is on the rise, as discussed in all three papers of the dissertation. Because ethics have led to competitive advantages for firms in certain situations, it is likely that these marketing practices and behaviors will continue to increase in popularity. This dissertation uses game theory buttressed with empirical evidence to provide a framework for understanding ethical conformity in marketing. Not only does this collection of work begin to fill the dearth of knowledge on this subject, it also contributes as a foundation for future studies in this stream.

Although this work enhances our understanding of marketing ethics and the manifestations of such beliefs by a firm, future research is needed to develop a more rigorous approach overall. Economic experiments provided the empirical setting for these papers. Due to the novelty and sensitive nature of studying decisions involving ethics with actual managers, maximizing the internal validity of the studies was a priority. Using the results of these studies as a guide, future work should emphasize external validity and generalizability in the research settings. For example, the numerous external and complementary influences on marketing decision making involving ethics (including competing interests, limited budgets, etc.) warrant inclusion to understand a complete picture of ethical conformity in marketing. Survey research or perhaps in-depth case studies of actual firms will enhance the depth and breadth of knowledge about ethics in marketing strategy.

An exploration of the behaviors involved in ethical underconformity represents an important area of future research. I have focused on the behaviors involved with ethical overconformity or the purposeful and deliberate leveraging of ethics in the marketplace for competitive advantage. With ethical overconformity, marketers strive for recognition of such behaviors and disseminate that information to customers. An investigation of ethical underconformity will no doubt face challenges as such behaviors often are not known and, moreover, are guarded closely by firms. The discrepancies between ethical overconformity and underconformity with respect to the assumption of information must be addressed if researchers hope to understand the dark side of marketing ethics. Even in a controlled setting analogous to the experimental settings used in this dissertation, social desirability biases potentially may alter managers' decisions as they strive to appear more ethical or socially conscious. Game theory and related mathematical modeling approaches, however, suggest a promising approach to investigating questions once believed impossible to ask.

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APPENDIX ONE

PAPER TWO DATA COLLECTION MATERIALS

APPENDIX A

Data Collection Details: Paper Two

Activity	**Timeline**	**Details**		
IRB Paperwork submitted	21-Aug-06			
IRB Approval received	1-Sep-06	Approval # 9296		
Pilot testing			**N**	**Results**
Business professors	11-Sep-06		4	• elaborated priming situation • better organized materials
Professors/practicing manager	12-Sep-06		4	• elaborated priming; even more powerful • "discretionary" vs. marketing budget • no rounding values in payoff tables • changed timing of scenario w/ instructions
Data Collection Participants	**Date**	**Condition***	**N**	
Marketing PhD students	15-Sep-06	control	8	
Tri-Cities managers	27-Sep-06	control	18	
WSU MBA students	12-Oct-06	control	8	
WSU PhD & MBA students	20-Oct-06	market response	11	
Tri-Cities managers	1-Nov-06	market response	8	
WSU PhD students	3-Nov-06	market response	8	
Pullman managers	4-Nov-06	market response	8	
WSU PhD students	17-Nov-06	control	7	
Practicing managers	25-Nov-06	control	4	
			72	**Total Participants**

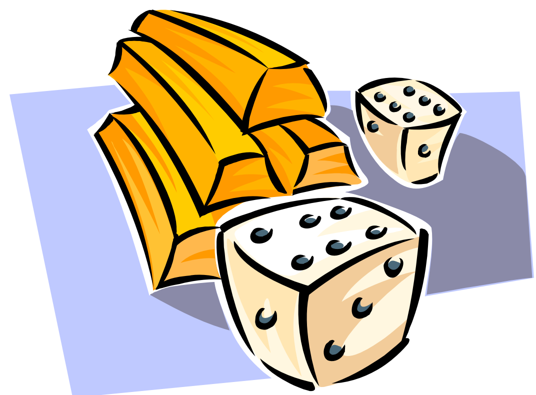
*Conditions	Details
Control (no market response)	• public goods game with 1) ethical 2) strategically aggressive framed scenarios • participants paid based on randomly selected period; highest earner only • only the period outcomes displayed, not individual contributions within industry
Favorable market response	• public goods game with 1) ethical 2) strategically aggressive framed scenarios • highest earner in randomly selected period paid • only the period outcomes displayed, not individual contributions within industry • favorable market response results in most ethical in each industry also paid

APPENDIX B

Learn about Strategic Decision Making …and Earn Money!!!

Researchers in the Marketing Department at WSU are conducting experiments to understand strategic decision making behaviors. We are seeking participants for these studies. We will need **less than one hour of your time.**

Why should you do this?



- The experiments involve decision making simulation games, so they are informative and interesting for managers. **You can learn about managerial decision making** in situations that firms actually face.
- **You can earn money!** You walk away with $5 just for showing up BUT an important part of the game is that participants get paid as they make "good" strategic decisions and "perform well." You may earn as much as $20-$30!
- **You can help** researchers gain important knowledge that will help managers do a better job and help firms perform better.

When, Where, and How do I participate??

Where: The Department of Marketing in the College of Business, Todd Addition. We will provide the exact location when you sign up.

When: The game will take <u>less than one hour of your time</u>. There are several time slots available this Thursday and Friday (November 16 & 17). We will offer additional times later in the semester if there is interest.

How: Contact Kelly Martin via email kelly_martin@wsu.edu OR call (509) 335-5848 or cell (509) 499-2339.

Please be a part of this interesting, informative, and important research effort!

APPENDIX C

WASHINGTON STATE UNIVERSITY: CONSENT FORM

Marketing Investment Decisions: Strategic Game

For further questions please contact Kelly Martin, Department of Marketing 335-5848 or kelly_martin@wsu.edu.

Additional researchers involved in this study include Dr. Jean L. Johnson, Department of Marketing, and Dr. Trenton G. Smith, Department of Economics.

Researchers' statement

We are asking you to be in a research study. The purpose of this consent form is to give you the information you will need to help you decide whether to be in the study or not. Please read the form carefully. You may ask questions about the purpose of the research, what we would ask you to do, the possible risks and benefits, your rights as a volunteer, and anything else about the research or this form that is not clear. When we have answered all your questions, you can decide if you want to be in the study or not. This process is called 'informed consent.' If you request, you may have a copy of this form for your records. Please ask any questions you might have before the study begins. Once the study officially starts, we will ask that you remain silent.

PURPOSE AND BENEFITS

You will have the opportunity to extend your learning of some of the strategic marketing concepts covered in this course by participating in an experimental strategic decision making game. The goal of the game is to better understand strategic marketing decisions made by firms. You will act as the primary marketing decision maker for your "firm," trying to generate the greatest firm performance possible based on what you know about the marketplace. Ultimately, through your marketing investment decisions in the game, you can attain a competitive advantage in the marketplace relative to the other firms (your classmates). Actual cash payouts will be distributed at the game's conclusion based on your firm's performance. Later in the semester (consult your syllabus), the purpose and results of the study will be explained to you in greater detail.

CONFIDENTIALITY

WSU employees, MBA students, other graduate students in the College of Business will have the opportunity to participate in this study, so we ask that you refrain from discussing the game until we have conducted our debriefing seminar. Likewise, we will ensure that all participants' performance information will be kept completely confidential.

WITHDRAWAL

If, in the course of the game, you decide you would no longer like to participate, you may withdraw from the study at any time. You will keep your initial participation fee, which we will have paid you at the beginning of the study. You may not, however, collect any performance earnings from the game, as the game must be completed in full in order to tabulate and subsequently distribute earnings appropriately.

Participant's statement

This study has been explained to me. I volunteer to take part in this research. I have had a chance to ask questions. If I have general questions about the research, I can ask one of the researchers listed above. If I have questions regarding my rights as a participant, I can call the WSU Institutional Review Board at (509) 335-9661. This project has been reviewed and approved for human participation by the WSU IRB (reference # 9296).

Printed name   Signature   Date

APPENDIX D

Strategic Marketing Study

Please indicate the extent to which you agree or disagree with the following statements.

For the most part…	*Strongly Disagree*						*Strongly Agree*
The management of a corporation is responsible to many definable interests in society.	1	2	3	4	5	6	7
The internal conduct of business affairs is not a matter for public involvement.	1	2	3	4	5	6	7
Most durable products could be made to last much longer but are made to wear out quickly to necessitate repurchase.	1	2	3	4	5	6	7
The purpose of the corporation can be quite simply summarized as service to society.	1	2	3	4	5	6	7
The main reason a company should actively care about the effects of it marketing strategy decisions on the public's welfare is because it makes for good public relations which in turn makes for more sales.	1	2	3	4	5	6	7
Standards for corporate performance must be left to the determination of management.	1	2	3	4	5	6	7
Companies are usually out to make a lot of money even if it means violating ethics and taking unfair advantage of consumers.	1	2	3	4	5	6	7
If people really knew what businesses do to deceive and take advantage of consumers they would be upset.	1	2	3	4	5	6	7
To maximize profits should be the single most important goal of business.	1	2	3	4	5	6	7
Business is an institution of society and therefore the problems of society should also be important problems for business to help solve even if there is no immediate monetary reward for their efforts.	1	2	3	4	5	6	7
The main reason managers should care about what the consumer thinks and wants is because that is the way to please him/her and get a bigger share of the market.	1	2	3	4	5	6	7
Management should be the sole determinant of a corporation's objectives.	1	2	3	4	5	6	7

Please provide the following information about yourself. This information will be used only to categorize the results and will not be used to identify you.
<u>All information is confidential.</u>

1. Years of professional work experience (beyond undergraduate) __________

2. Primary area of expertise:

   ☐ Business: Accounting
   ☐ Business: Finance
   ☐ Business: Information Systems
   ☐ Business: Management
   ☐ Business: Marketing & Sales
   ☐ Economics
   ☐ Other ________________________________

3. Number of employees for whom you have been responsible __________

4. Number of employees in your organization (please check one)

   ☐ LESS THAN 15
   ☐ 15 - 49
   ☐ 50 - 99
   ☐ 100 – 199
   ☐ 200 – 499
   ☐ 500 – 999
   ☐ 1,000 – 4,999
   ☐ 5,000 – 10,000
   ☐ MORE THAN 10,000

5. Year the firm came into existence __________________

6. Your position ____

7. Years in current position _________________________

8. YEARS WITH THE FIRM ______________________________

9. GENDER (CIRCLE ONE): FEMALE MALE

10. AGE (PLEASE CHECK ONE):

   ☐ 22 – 29 ☐ 30 – 39 ☐ 40 – 49 ☐ 50 – 59 ☐ 60 – 64 ☐ OVER 65

WE THANK YOU FOR YOUR PARTICIPATION AND GREATLY APPRECIATE YOUR SUPPORT FOR OUR RESEARCH!

APPENDIX E

Introductory Situation

The Situation

“The demand for premium and gourmet coffees has exploded, with consumers willing to pay higher and higher prices for their favorite blends. While the companies that have tapped into this market are becoming wealthier, the small coffee farmers around the world are earning less and less with tough competition. These farmers often do not earn enough to feed their families. Their children rarely finish school, as they are forced into difficult labor on the farm to help the family survive. Working conditions are brutal, lasting long hours in excruciating heat. These workers typically have no health care available. Also, to avoid lost crops and cut costs, some farmers have begun using genetically modified organisms and harsh pesticides. Wildlife is being ravaged. Rainforest and other vegetative areas are being clear-cut away to increase production.”

APPENDIX F

Individual Situation by Condition

Your task…

"You are the marketing manager for a coffee-producing firm. From the top down, your firm emphasizes winning competitively. Dominating the marketplace and outperforming your competitors are the central components of the mission statement. Employees, including you, are subject to rigorous performance objectives. Throughout the marketplace your firm is known for its competitive nature and cutthroat business tactics.

Your firm has decided to launch a new coffee product. Your marketing budget has already been compiled and approved. However, the CEO has given you some additional discretionary funds to spend in any way you want, as long as it is consistent with the company mission and objectives.

You can…

1. <u>Spend the discretionary money on increased marketing efforts</u>. *Additional marketing will earn you a significant return in the marketplace.*
2. <u>Spend the discretionary money on ethical causes</u>. These contributions will help prevent the exploitation of poor coffee farmers in remote areas and will promote safer, more desirable conditions for these workers. It will also promote more environmentally friendly farming practices. *You will earn a return from contributing to ethical causes, but it will vary depending on how much others in the industry contribute.* When the entire coffee industry contributes, everyone benefits with substantial returns, as this promotes goodwill in the marketplace. When few industry players contribute, the impact is less so the returns will be smaller.

Ultimately, you want the new product to be successful in the marketplace, beating out the competition. *Regardless of your personal ethical values*, you will want to spend this discretionary budget in a fashion that will earn you the greatest profits; whether that is through additional marketing spending or through spending on ethical causes."

<u>Your objective for all rounds of the game is:</u>

Earn the most profits you can, in whatever manner possible.

Your task…

"You are the marketing manager for a coffee-producing firm. While management understands the importance of profits and competitive advantage, from the top down, your firm emphasizes ethical practices and social responsibility. Along with financial performance, ethical values are the central component of the mission statement. Employees are required to meet social responsibility objectives as well as traditional performance objectives. Throughout the marketplace your firm is known for its ethical behavior.

Your firm has decided to launch a new coffee product. Your marketing budget has already been compiled and approved. However, the CEO has given you some additional discretionary funds to spend in any way you want, as long as it is consistent with the company mission and objectives.

You can…

1. <u>Spend the discretionary money on increased marketing efforts</u>. *Additional marketing will earn you a significant return in the marketplace.*
2. <u>Spend the discretionary money on ethical causes</u>. These contributions will help prevent the exploitation of poor coffee farmers in remote areas and will promote safer, more desirable conditions for these workers. It will also promote more environmentally friendly farming practices. *You will earn a return from contributing to ethical causes, but it will vary depending on how much others in the industry contribute.* When the entire coffee industry contributes, everyone benefits with substantial returns, as this promotes goodwill in the marketplace. When few industry players contribute, the impact is less so the returns will be smaller.

Ultimately, you want the new product to be successful in the marketplace but your firm values the ethical concerns too. *Regardless of your personal ethical values*, you will want to spend this discretionary budget in a fashion that will address the ethical issues and still allow you to perform well in the marketplace."

<u>Your objective for all rounds of the game is:</u>

Promote the new product consistent with the firm's ethical mission and objectives.

APPENDIX G

Returns from Ethical Cause Contributions

Based on Total Industry Contribution

(50.0% Rate of Return)

Total Contributions	Your Earnings	Total Contributions	Your Earnings
$1	$0.50	$21	$10.50
2	1.00	22	11.00
3	1.50	23	11.50
4	2.00	24	12.00
5	2.50	25	12.50
6	3.00	26	13.00
7	3.50	27	13.50
8	4.00	28	14.00
9	4.50	29	14.50
10	5.00	30	15.00
11	5.50	31	15.50
12	6.00	32	16.00
13	6.50	33	16.50
14	7.00	34	17.00
15	7.50	35	17.50
16	8.00	36	18.00
17	8.50	37	18.50
18	9.00	38	19.00
19	9.50	39	19.50
20	10.00	40	20.00

APPENDIX H

Firm____________________

Decisions and Earnings Sheet

Period	Discretion Budget	Your Decision: (A) Added Marketing	Your Decision: (B) Ethical Cause	(C) Industry Spending on Ethical Cause	(D) Value of Ethical Cause Return	(E) Firm Earnings (A) + (D)
1	$ 10					
2	$ 10					
3	$ 10					
4	$ 10					
5	$ 10					
6	$ 10					
7	$ 10					
8	$ 10					
9	$ 10					
10	$ 10					

[a]Total Contribution to Ethical Cause: Sum of Column (b) ____________________

Decision Period Randomly Selected: ____________________

Firm Earnings From Selected Decision Period: ____________________

[a]Inclusion of this entry varied based on what condition was being evaluated.

APPENDIX I

Firm____________________

Strategic Marketing Study: Feedback

Please answer the following questions about the scenarios you read prior to the game titled "The Situation" and "Your Task."

1. I played most rounds of the game with my firm objectives in mind.

Strongly Disagree							*Strongly Agree*
	1	2	3	4	5	6	7

2. The firm objectives were clear.

Strongly Disagree							*Strongly Agree*
	1	2	3	4	5	6	7

3. I stayed true to my objectives throughout the game.

Strongly Disagree							*Strongly Agree*
	1	2	3	4	5	6	7

4. The scenario was effective in setting my personal objectives for the game.

Strongly Disagree							*Strongly Agree*
	1	2	3	4	5	6	7

5. The firm objectives were effective in making me think about an ethical cause.

Strongly Disagree							*Strongly Agree*
	1	2	3	4	5	6	7

6. The ethical scenario I read was realistic.

Strongly Disagree							*Strongly Agree*
	1	2	3	4	5	6	7

7. My primary objective in the game was ________________________________

Thank You
For Your Help!!!

APPENDIX TWO

PAPER THREE DATA COLLECTION MATERIALS

APPENDIX A

Data Collection Details: Paper Three

Activity	Timeline	Details		
IRB Paperwork submitted	21-Aug-06			
IRB Approval received	1-Sep-06	Approval # 9296		
Pretests	**Date**	**Condition**	**Code**	**N**
4th year marketing majors	13-Feb-07	behavior known/ethical	1	28
marketing, Ibus majors	13-Feb-07	behavior known/unethical	2	28
		Total Pretest Participants:		**56**
Pretest outcomes:	• Craft better description of supplier role: • I.e., Why would supplier return any of investment? • Provide more detailed instructions • Results show treatments significant: • marketing managers and suppliers ($p < .05$) • As predicted, ethical gave more; unethical less			
Participants Data Collection	**Date**	**Condition***	**Code**	**N**
WSU MBA students	15-Feb-07	behavior known/unethical	3	26
WSU PhD students	22-Feb-07	behavior known/ethical	4	8
WSU PhD students	23-Feb-07	behavior known/ethical	5	11
WSU Masters Accounting	27-Feb-07	behavior known/ethical	6	11
WSU PhD students	27-Feb-07	behavior known/ethical	7	8
WSU PhD students	28-Feb-07	behavior known/ethical	8	6
WSU PhD students	1-Mar-07	behavior unknown ethical	9	8
WSU PhD students	2-Mar-07	behavior known/ethical	10	18
WSU PhD students	2-Mar-07	behavior unknown/SA	11	6
WSU SES students	2-Mar-07	behavior unknown/SA	12	20
Open sessions	5-Mar-07	behavior unknown/SA	13	4
WSU MBA students	6-Mar-07	behavior unknown/ethical	14	21
WSU DDP students	6-Mar-07	behavior known/unethical	15	22
WSU Tri-Cities	7-Mar-07	behavior unknown/SA	16	16
Open sessions	8-Mar-07	behavior unknown/ethical	17	31
Open sessions	9-Mar-07	behavior unknown/SA	18	17
Open sessions	9-Mar-07	behavior known/unethical	19	18
		Total Study Participants:		**251**

*Conditions	Details
Supplier behavior known	
Ethical (n = 62) Ethically Questionable (n = 66)	• Transparency condition testing Hypotheses 1 & 3. • Tests whether differences in investments and leveraging based on ethical/unethical information known about Supplier.
Supplier behavior unknown	
Marketer ethical Identity (n = 60) Marketer strategically aggressive identity (n = 63)	• Absence of transparency condition testing Hypotheses 2 & 4. • Treatments will test the effect of identity on investment/leveraging decisions when no ethical information is known about Supplier.

APPENDIX B

Play Simple Strategic Decision Making Games…and Earn Money!!!

Researchers in the Marketing Department at WSU are conducting studies to understand strategic decision making behaviors. We are seeking participants for these decision making games. We will need **only about a half hour of your time.**

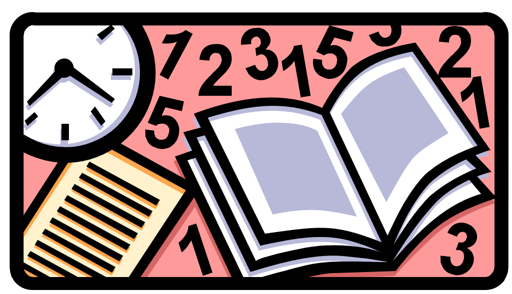
Why should you do this?

- The studies involve decision making simulation games, so they are informative and interesting for managers. **You can learn about managerial decision making** in situations that firms actually face.
- **You can earn money!** Participants get paid as they make "good" strategic decisions and "perform well." You may earn as much as $20-$30!
- **You can help** researchers gain important knowledge that will help managers do a better job and help firms perform better.

When, Where, and How do I participate??

When: The game will take about 30 minutes of your time. The following time slots are available. We will offer additional times later in the semester if there is interest.

Thursday, March 1	6:00 pm
Friday, March 2	2:00 pm
Monday, March 5	4:00 pm
Tuesday, March 6	5:00 pm
Friday, March 9	12:00 noon
Friday, March 9	1:00 pm



Where: The College of Business, Todd Addition Room 302.

How: Contact Kelly Martin via email kelly_martin@wsu.edu OR call (509) 335-5848.

Please be a part of this interesting and informative, research effort!

APPENDIX C

WASHINGTON STATE UNIVERSITY: CONSENT FORM

Marketing Investment Decisions: Strategic Game

For further questions please contact Kelly Martin, Department of Marketing 335-5848 or kelly_martin@wsu.edu. Additional researchers involved in this study include Dr. Jean L. Johnson, Department of Marketing, and Dr. Trenton G. Smith, Department of Economics.

Researchers' statement

We are asking you to participate in a research study. The purpose of this consent form is to give you the information you will need to help you decide whether to participate in the study or not. Please read the form carefully. You may ask questions about the purpose of the research, what it entails, the possible risks and benefits, your rights as a volunteer, and anything else about the research or this form that is not clear. When we have answered all your questions, you can decide if you want to be in the study or not. This process is called 'informed consent.' If you request, you may have a copy of this form for your records. Please ask any questions you might have before the study begins. Once the study officially starts, we will ask that you remain silent.

PURPOSE AND BENEFITS

You will be participating in a strategic decision making game. The goal of the game is to better understand strategic marketing decisions made by firms. You will be randomly assigned to a managerial role and will act as the primary decision maker for a 'firm.' Actual cash payouts will be distributed at the game's conclusion based on your firm's performance. At the end of the session, the purpose of the study will be explained to you in greater detail.

CONFIDENTIALITY

WSU employees, faculty members, graduate students, and other Pullman community members will have the opportunity to participate in this study, so we ask that you refrain from discussing the game until the end of the semester in May. Likewise, we will ensure that all participants' performance information will be kept completely confidential.

WITHDRAWAL

If, in the course of the game, you decide you would no longer like to participate, you may withdraw from the study at any time. You may not, however, collect performance earnings from the game, as the game must be completed in full in order to tabulate and subsequently distribute earnings appropriately.

Participant's statement

This study has been explained to me. I volunteer to take part in this research. I have had a chance to ask questions. If I have general questions about the research, I can ask one of the researchers listed above. If I have questions regarding my rights as a participant, I can call the WSU Institutional Review Board at (509) 335-9661. This project has been reviewed and approved for human participation by the WSU IRB (reference # 9296).

Printed name	Signature	Date

APPENDIX D

Decision Sheets: Marketing Managers

ID # _______________

Product Development Exercise

Marketing Manager Healthy Life Company

You are the Marketing Manager for Healthy Life, a nutrition and consumer health products firm. Market research has shown that consumers are willing to pay a premium for all-natural and organic products. Based on the strengths of your company, you have decided to develop a new line of all-natural shampoos.

You will be working with the Acme Company to supply the shampoo ingredients. Now it is up to you and a Supplier from Acme to work out the financial details. You must use the limited information you have about Acme to make your investment decision.

Acme Company, is known for being ethical. They use only organic ingredients in their products and have never tested their products on animals.

MARKETING MANAGER: Please make a note of the initial amount you have been given. From this, please determine the amount you wish to keep and the amount you wish to invest with Acme Company. It is the invested amount that will be multiplied and from which the Acme Company Supplier may allocate a return amount.

A	**Starting Amount**	**$10**
B	**Amount you wish to KEEP**	
C	**Amount you wish to INVEST with Acme Co. (A – B)**	

ID # _______________

Product Development Exercise

Marketing Manager Healthy Life Company

You are the Marketing Manager for Healthy Life, a nutrition and consumer health products firm. Market research has shown that consumers are willing to pay a premium for all-natural and organic products. Based on the strengths of your company, you have decided to develop a new line of all-natural shampoos.

You will be working with the Acme Company to supply the shampoo ingredients. Both Healthy Life and Acme have formally agreed to partner to make the product. Now it is up to you and a Supplier from Acme to work out the financial details.

First, you must decide how much to invest with Acme to develop the shampoo products. Your market research shows that you can potentially earn an increased return from Acme. In other words, Acme has the potential to deliver a portion of your investment back to you. However, you cannot be certain how much, if any, of that investment they will return. You must use the limited information you have about Acme to make your investment decision.

The Supplier, Acme Company, is not known for being ethical. There is some question whether Acme uses natural ingredients in their products. It is also possible that Acme tests their products on animals.

MARKETING MANAGER: Please make a note of the initial amount you have been given. From this, please determine the amount you wish to keep and the amount you wish to invest with Acme Company. It is the invested amount that will be multiplied and from which the Acme Company Supplier may allocate a return amount.

A	**Starting Amount**	**$10**
B	**Amount you wish to KEEP**	
C	**Amount you wish to INVEST with Acme Co. (A – B)**	

ID # ________________

Product Development Exercise

Marketing Manager: Roadster Automotive

You are the marketing manager for Roadster Automotive Company, an automotive company that makes mid-sized cars. From the top down, your firm emphasizes ethical practices and social responsibility. Ethical values are the central component of the mission statement, along with financial performance. Throughout the marketplace your firm is known for its ethical behavior.

The Roadster Company is developing a new line of non-polluting electric cars. Preliminary market research shows that these cars will be very successful with consumers. You will be working with O.K. Engines to supply many of the cars' components.

You do not have any information about whether O.K. Engines is ethical or unethical.

MARKETING MANAGER: Please make a note of the initial amount you have been given. From this, please determine the amount you wish to keep for additional expenses and the amount you wish to invest with O.K. Engines. It is the invested amount that will be multiplied and from which the O.K. Engines' Supplier may allocate a return amount.

A	**Starting Amount**	**$10**
B	**Amount you wish to KEEP**	
C	**Amount you wish to INVEST with O.K. Co. (A – B)**	

ID # _______________

Product Development Exercise

Marketing Manager: Roadster Automotive

You are the marketing manager for Roadster Automotive Company, an automotive company that makes mid-sized cars. From the top down, your firm emphasizes winning competitively. Dominating the marketplace and outperforming your competitors are the central components of the mission statement. Throughout the marketplace your firm is known for its competitive nature and cutthroat business tactics.

The Roadster Company is developing a new line of non-polluting electric cars. Preliminary market research shows that these cars will be very successful with consumers. You will be working with O.K. Engines to supply many of the cars' components.

You do not have any information about whether O.K. Engines is ethical or unethical.

MARKETING MANAGER: Please make a note of the initial amount you have been given. From this, please determine the amount you wish to keep for additional expenses and the amount you wish to invest with O.K. Engines. It is the invested amount that will be multiplied and from which the O.K. Engines' Supplier may allocate a return amount.

A	**Starting Amount**	**$10**
B	**Amount you wish to KEEP**	
C	**Amount you wish to INVEST with O.K. Co. (A – B)**	

APPENDIX E

Decision Sheets: Supplier

ID # _______________

Product Development Exercise

Supplier Acme Company

You are a Supplier that works for the Acme Company, which supplies soaps and other ingredients to other businesses. You have been contacted by the Marketing Manager for Healthy Life Company to supply the ingredients for a new line of all-natural shampoos they are developing.

Both Healthy Life and Acme have formally agreed to partner to make the product. Now it is up to you and a Marketing Manager from Healthy Life to work out the financial details. You must use the limited information you have about your company, Acme, to determine how much of the investment you will keep, and how much you will return.

Your company, Acme, is known for being ethical. They use only organic ingredients in their products and have never tested their products on animals.

SUPPLIER: Please make a note of the amount Healthy Life Company has invested with you. From this, please determine the amount you wish to keep and the amount you wish to send back to the Marketing Manager of Healthy Life in Boxes D, E, and F below.

D	**Amount you have been sent (Multiply sent amount times 3; New amount is D)**	
E	**Amount of D you wish to KEEP**	
F	**Amount you wish to SEND BACK to Healthy Life Co.**	

ID # _______________

Product Development Exercise

Supplier Acme Company

You are a Supplier that works for the Acme Company, which supplies soaps and other ingredients to other businesses. You have been contacted by the Marketing Manager for Healthy Life Company to supply the ingredients for a new line of all-natural shampoos they are developing.

Both Healthy Life and Acme have formally agreed to partner to make the product. Now it is up to you and a Marketing Manager from Healthy Life to work out the financial details.

First, the Marketing Manager will decide how much to invest with your company to develop the shampoo products. You will use any amount that Healthy Life invests with you to add value to their products with your ingredients. Although you have not specified an amount in the contract, you know that you will need to keep some of the investment for yourself as a service fee. Any amount beyond that you can return to the Marketing Manager. Any amount you return represents the added value they receive from their investment in the new products. You must use the limited information you have about your company, Acme, to determine how much of the investment you will keep, and how much you will return.

Your company, Acme, is not known for being ethical. There is some question whether Acme uses natural ingredients in their products. It is also possible that Acme tests their products on animals.

SUPPLIER: Please make a note of the amount Healthy Life Company has invested with you. From this, please determine the amount you wish to keep and the amount you wish to send back to the Marketing Manager of Healthy Life in Boxes D, E, and F below.

D	**Amount you have been sent (Multiply sent amount times 3; New amount is D)**	
E	**Amount of D you wish to KEEP**	
F	**Amount you wish to SEND BACK to Healthy Life Co.**	

ID # _______________

Product Development Exercise

Supplier O.K. Engines Company

You are a Supplier that works for the O.K. Engines Company, which supplies car engines and other automotive components to carmakers. You have been contacted by the marketing manager for Roadster Automotive Company to supply the components for a new line of electric cars they are developing.

SUPPLIER: Please make a note of the amount Roadster Automotive has invested with you. From this, please determine the amount you wish to keep as a service fee and the amount you wish to send back to the Marketing Manager of the Roadster Co. in Boxes D, E, and F below.

D	**Amount you have been sent (3 times “INVESTMENT AMOUNT”)**	
E	**Amount you wish to KEEP**	
F	**Amount you wish to SEND BACK to Roadster Co.**	

APPENDIX F

Questionnaire Page 1 (By Role)

Strategic Marketing Study: Marketing Manager

1. Based on what you know about the Acme Co. supplier, how likely would you be to advertise the new shampoo product in the marketplace as being very ethical?

Not at all likely	1	2	3	4	5	6	7	*Very likely*

2. In general, how important is the ethical behavior of a company's business partners (suppliers, distributors, etc.)?

Not at all important	1	2	3	4	5	6	7	*Very important*

3. If a company wants to market a product to consumers on the basis of that product being very ethical, the company should be concerned about the ethical behavior of all their business partners (suppliers and distributors of the product).

Strongly disagree	1	2	3	4	5	6	7	*Strongly agree*

4. The ethical behavior of a company's business partners (suppliers, distributors, etc.) is only important when the company is marketing an ethical product.

Strongly disagree	1	2	3	4	5	6	7	*Strongly agree*

5. If ethical products are shown to be very desirable to customers, a company should market their ethical products regardless of the behavior of their suppliers.

Strongly disagree	1	2	3	4	5	6	7	*Strongly agree*

6. Please list all the factors you were considering when making your investment decision. Please be as thorough and specific as possible.

Please turn to back side

Strategic Marketing Study: Supplier

1. Based on what you know about the Healthy Life Company, how successful do you think it would be for them to advertise the new shampoo product in the marketplace as being very ethical?

Not at all successful	1	2	3	4	5	6	7	*Very successful*

2. In general, how important is the ethical behavior of a company's business partners (suppliers, distributors, etc.)?

Not at all important	1	2	3	4	5	6	7	*Very important*

3. If a company wants to market a product to consumers on the basis of that product being very ethical, the company should be concerned about the ethical behavior of all their business partners (suppliers and distributors of the product).

Strongly disagree	1	2	3	4	5	6	7	*Strongly agree*

4. The ethical behavior of a company's business partners (suppliers, distributors, etc.) is only important when the company is marketing an ethical product.

Strongly disagree	1	2	3	4	5	6	7	*Strongly agree*

5. If ethical products are shown to be very desirable to customers, a company should market their ethical products regardless of the behavior of their suppliers.

Strongly disagree	1	2	3	4	5	6	7	*Strongly agree*

6. Please list all the factors you were considering when making your investment decision. Please be as thorough and specific as possible.

Please turn to back side

Strategic Marketing Study: Marketing Manager

1. Based on what you know about the supplier, O.K. Engines Co., how likely would you be to advertise the new non-polluting car in the marketplace as being very ethical?

Not at all likely	1	2	3	4	5	6	7	*Very likely*

2. In general, how important is the ethical behavior of a company's business partners (suppliers, distributors, etc.)?

Not at all important	1	2	3	4	5	6	7	*Very important*

3. If a company wants to market a product to consumers on the basis of that product being very ethical, the company should be concerned about the ethical behavior of all their business partners (suppliers and distributors of the product).

Strongly disagree	1	2	3	4	5	6	7	*Strongly agree*

4. The ethical behavior of a company's business partners (suppliers, distributors, etc.) is only important when the company is marketing an ethical product.

Strongly disagree	1	2	3	4	5	6	7	*Strongly agree*

5. If ethical products are shown to be very desirable to customers, a company should market their ethical products regardless of the behavior of their suppliers.

Strongly disagree	1	2	3	4	5	6	7	*Strongly agree*

6. Please list all the factors you were considering when making your investment decision. Please be as thorough and specific as possible.

Please turn to back side

Strategic Marketing Study: Supplier

1. Based on what you know about the Roadster Automotive Company, how successful do you think it would be for them to advertise the new non-polluting car in the marketplace as being very ethical?

Not at all successful	1	2	3	4	5	6	7	*Very successful*

2. In general, how important is the ethical behavior of a company's business partners (suppliers, distributors, etc.)?

Not at all important	1	2	3	4	5	6	7	*Very important*

3. If a company wants to market a product to consumers on the basis of that product being very ethical, the company should be concerned about the ethical behavior of all their business partners (suppliers and distributors of the product).

Strongly disagree	1	2	3	4	5	6	7	*Strongly agree*

4. The ethical behavior of a company's business partners (suppliers, distributors, etc.) is only important when the company is marketing an ethical product.

Strongly disagree	1	2	3	4	5	6	7	*Strongly agree*

5. If ethical products are shown to be very desirable to customers, a company should market their ethical products regardless of the behavior of their suppliers.

Strongly disagree	1	2	3	4	5	6	7	*Strongly agree*

6. Please list all the factors you were considering when making your investment decision. Please be as thorough and specific as possible.

Please turn to back side

APPENDIX G

Questionnaire Page 2

Please indicate the extent to which you agree or disagree with the following statements.

For the most part…	*Strongly Disagree*						*Strongly Agree*
It is sometimes necessary for a company to engage in shady practices because its competition is doing so.	1	2	3	4	5	6	7
An employee should overlook someone else's wrongdoing if it is in the best interest of the company.	1	2	3	4	5	6	7
A supervisor should not care how results are achieved as long as the desired outcome occurs.	1	2	3	4	5	6	7
There is nothing wrong with a supervisor asking an employee to falsify a document.	1	2	3	4	5	6	7
Profits should be given a higher priority than the safety of a product.	1	2	3	4	5	6	7

Please provide the following information about yourself. This information will be used only to categorize the results and will not be used to identify you.

All information is confidential.

1. Years of professional work experience __________

2. Primary area of expertise:
   - ☐ Business: Accounting
   - ☐ Business: Finance
   - ☐ Business: Information Systems
   - ☐ Business: Management
   - ☐ Business: Marketing & Sales
   - ☐ Economics
   - ☐ Other ________________________________

3. Number of employees for whom you have been responsible __________

4. GENDER (CIRCLE ONE): FEMALE MALE

5. AGE (PLEASE CHECK ONE):

   ☐ 22 – 29 ☐ 30 – 39 ☐ 40 – 49 ☐ 50 – 59 ☐ 60 – 64 ☐ OVER 65

WE THANK YOU FOR YOUR PARTICIPATION AND GREATLY APPRECIATE YOUR SUPPORT FOR OUR RESEARCH!