

AN EXPLORATORY STUDY OF PROFESSIONAL ETHICAL STANDARDS, POSITIVE BUDGETING ORIENTATION, AND THE MEDIATING ROLE OF CORPORATE ETHICAL VALUES

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ABSTRACT

The purpose of this exploratory study was to empirically assess interrelationships between professional ethical standards, corporate ethical values, and the concept of positive budgeting orientation. It was believed that perceived ethical values would fully or partially mediate the proposed positive relationship between perceived professional ethics and positive budgeting in companies. Survey data were gathered from experienced managers, some of which were members of the Institute of Management Accountants, and students in MBA and Executive MBA programs located in the Mountain West and Midwestern regions of the United States. Overall, 290 surveys of managers who worked in a variety of business occupations were assessed. The findings showed a strong positive association between professional ethical standards and corporate ethical values, as well as between ethical values and a positive budgeting orientation. In the presence of these relationships, the professional ethical standards and positive budgeting orientation variables were unrelated, indicating that perceived ethical values functioned as a full mediator. The findings implied that ethical environments in both professions and organizations can be used to enhance positive budgetary practices.

JEL: M14, M41

KEYWORDS: Professional Ethics, Positive Budgeting, Corporate Ethical Values

INTRODUCTION

Ethical guidelines that influence the workplace behaviors and practices of employers and their employees are often institutionalized in different professional and organizational environments. At the occupational level, professional ethical standards stem from ethical guidelines embedded in education programs, licensures, and/or certification processes that identify with an ethics code and related ethical monitoring capabilities (Bullock & Panicker, 2003; Gaumnitz & Lere, 2004). Ultimately, professional ethical standards enhance employee ethical attitudes and commitment (Valentine & Fleischman, 2008b). At the organizational level, corporate ethical values (also operationalized as ethical culture/climate) refer to the formal and informal ethics-related policies used by companies to set the ethical tone within the workplace (Hunt et al., 1989; Sims, 1991; Trevino et al., 1998; Trevino & Nelson, 2004). These ethical principles affect many important employee attitudes and perceptions (e.g., Hunt et al., 1989; Valentine et al., 2011a; Valentine et al., 2011b; Valentine et al., 2006). In practice, these two environments should work together to influence important organizational outcomes, with one such factor being a positive budgeting orientation, an exploratory concept linked to beneficial budgeting practices in a firm. There is reason to believe that these contextual factors are keenly interrelated. For instance, a linkage between professional ethical standards and corporate ethical values can be identified using the multi-stakeholder governance network, which comprehensively overlays various interfaces among

professional associations, professional employees, all levels of organizations, and governments (Bonn & Fisher, 2005; Gotterbarn, 2009). The former stakeholders represent self-regulation and the latter the moral floor, respectively (Bonn & Fisher, 2005; Gotterbarn, 2009). Most importantly, the multi-stakeholder governance approach helps explain how employees may defer to their professions' ethics training, standards, and expectations when facing ethical disconnects related to functional job-related circumstances in their organization (Higgs-Kleyn & Kapelianis, 1999), thus shaping organizational practice and influencing what employees elect to *do* at work.

A key motivation then is to link the professional ethical standard-corporate ethical value relationship to important work-based outcomes related to functional ethical issues. We contend that a positive budgeting orientation is one such relevant variable. For example, corporate ethical values influence employee workgroup outcomes in the marketing, human resources, and accounting context where employees may face unique budget-related ethical dilemmas resulting from pressures to meet quotas or performance targets. Due to these pressures, unfair work environments may develop that put the organization as a whole at risk (Walker, 2009). Consequently, this study explores the positive budgeting orientation concept because of its importance to many organizations. For instance, budgeting impacts most aspects of the internal managerial accounting process (Covaleski et al., 2003), a process that dates back to the piecework standards espoused by Frederick Taylor in 1911 (Walker et al., 2012). The budgeting process may also be viewed as a managerial control vehicle to enhance *management by exception* and incentivize employee performance that is tied to meeting budget targets.

Additionally, the budget is often used either for corrective action or as a motivator for performance (Benston, 1963; Merchant & Manzoni, 1989; Ronen & Livingstone, 1975), which may also be tied to pecuniary benefits, such as salary increases and/or bonuses. In budgeting situations such as these, employee tension often arises to attain predetermined goals. Unfortunately, the budgeting ethics literature suggests that all too often these budgetary incentives trigger unethical activities. For example, in participative budgeting there may a tendency for employees to set their target goal *below* what they believe is attainable in order to increase the probability of meeting their goal and obtaining the target bonus, a process often referred to as creating budgetary *slack* (Chow et al., 1988; Healy 1985; Jennergren, 1980; McNabb & Whitfield 2007; Young 1985). Ultimately, budgeting processes may induce employees to lie and cheat on a widespread basis, which destroys employee commitment and empowerment, and ultimately leads to an environment of fear (Argyris, 1998; Kirchgaessner & Waters 2002). These conditions can severely compromise an organization's level of ethics.

Because the budgetary process may inadvertently provide incentives to act unethically, we are therefore motivated to assess how a positive budgeting orientation is related to professional ethical standards and corporate ethical values. Our reasoning for this investigation is based on the contention that professional values, combined with an ethical organizational environment, mitigate unintended budget-induced ethical dysfunction when combined with a positive budgeting orientation that is supported by management. This study contributes to the business ethics literature in general, and to the field of budgetary ethics in particular, while also being pragmatically useful for companies wishing to minimize budgetary slack creation and generalized gaming. This is also the first study that links relationships between professional ethical standards, corporate ethical values, and a positive budgeting orientation. A better understanding of these relationships is essential for addressing budgetary slack unethical behavior that can occur in the workplace. The remainder of this manuscript is organized as follows. The next section presents the literature for each of the focal variables, professional ethical standards, corporate ethical values, and positive budgeting orientation. The following section discusses the study's methodology, including data collection, measures, and statistical analyses. Next, the empirical results are presented, followed by an overview of the study's findings, contributions, and limitations.

LITERATURE REVIEW

A profession is defined as “a moral community...a non-random collection of groups of people engaged in reciprocal and positive social interaction” (Sama & Shoaf, 2008, p. 41). The discipline of professional ethical standards often assumes a relationship between the ethics espoused by professional associations and those operationalized at the organizational level. Consequently, the ethics of professions and professionals, as well as the attitudes and behaviors prompted by such principles, tend to be a reflection of a complex web of informal and formal governance infrastructures within professional associations, organizations, and key stakeholder groups, which are juxtaposed against motivations of self-interests (De Cremer et al., 2010; Frankel, 1989; Valentine & Fleischman, 2008b; Valentine & Johnson, 2005).

Professional associations often clarify responsibilities through formalized ethics codes (Mabe & Rollin, 1986), promote ethical standards through educational programs, licensures, and certification processes, and sanction unethical member behavior by suspension or removal from membership (Bullock & Panicker, 2003; Gaumnitz & Lere, 2004; Skubik & Stening, 2009). Frankel (1989) stated, “A code embodies the collective conscience of a profession and is a testimony to the group’s recognition of its moral dimension” (p. 110). There is general agreement among code supporters that when professional ethical standards are effectively codified, they 1) establish the primary foundation upon which the moral rights, duties, and educational and reporting requirements (for the professional and organization) are built (Mabe & Rollin, 1986; Messikomer & Cirka, 2010; Pitt & Groskaufmanis, 1990; Schwartz, 2004; Stevens, 2008; Vinten, 1990); 2) provide aspirational guidelines that lift ethical behavior to higher but reachable levels (Gotterbarn, 2009; Rottig et al., 2011; Valentine & Fleischman, 2008b); 3) define compliance-oriented ethical standards and sanctions (Murphy, 1989); 4) provide a tangible deliverable wherein professional norms are pronounced to stakeholders (Frankel, 1989; Murphy, 1989); 5) are effectively integrated at firm and professional association levels through educational initiatives (Murphy, 1989); 6) serve as a vehicle for professional identity and mark the maturity of a profession (Mabe & Rollin, 1986); and 7) contribute to positive ethical climate (Bonn & Fisher, 2005; Brown et al., 2005; Gotterbarn, 2009; Hoogervorst et al., 2010; Mayer et al., 2010; Murphy, 2005; Schwartz, 2004).

While codified professional standards are important, their presence does not guarantee ethical conduct (Gotterbarn, 2009; Petersen & Krings, 2009; Rottig et al., 2011; Schwartz, 2004; Skubik & Stening, 2009; Stevens, 2008). Some experts advocate legal constraints combined with sound internal auditing procedures to elevate professional behaviors to defined ethical standards (Berenbeim, 2010; Pitt & Groskaufmanis, 1990). Alternatively, others claim a normative culture that treats ethics as a responsibility (instead of a right) will influence code effectiveness, rather than legalistic, compliance-oriented statements (Schwartz, 2000; Trevino & Weaver, 2003). Research recognizes the integrative and strategic roles of professional ethical standards within the organization, as well as between the organization and the professional association. In a related manner, this involves institutionalization of codes, top management commitment, transformative leadership and culture, and informal or formal governance infrastructures supporting a firm-level comprehensive integrity strategy (Ferrell, 1999; Gotterbarn, 2009; Mabe & Rollin, 1986; Murphy, 2005; Paine, 1994; Skubik & Stening, 2009; Snell & Herndon, 2000; Stevens, 2008; Tucker et al., 1999). The process also includes ethics selection tools used by human resources, as well as more global initiatives that support a larger governance system for the profession (Berenbeim, 2010; Singhapakdi et al., 2010). The relationship between professional ethical standards and corporate ethical values may best be understood through a multi-stakeholder governance network involving interfaces between professional associations, professionals, organizations (all levels), and governments, with the former fueling self-regulatory efforts and the latter representing the moral floor (Bonn & Fisher, 2005; Gotterbarn, 2009). Some argue that this approach is the most appropriate for managing organizational risk, a result of considerations of multi-party ethical standards evidenced in codes, licensing, policy and procedures, and ethical contexts (Gotterbarn, 2009; Messikomer & Cirka, 2010).

The assumption behind the multi-stakeholder governance approach is that the reciprocal engagements between engaged stakeholders are motivated by duties to be truthful in the provision of information, and respect for privacy or confidentiality (Sama & Shoaf, 2008). The reality of the multi-stakeholder governance approach is that professionals may experience an ethical dilemma caused by a disconnect between the ethical standards within their profession and what is considered ethical behavior in the organization in which they are employed; and as a result, show deference to the ethical principles espoused by the profession over the standards evidenced in their organization (Higgs-Kleyn & Kapelianis, 1999). Although it is a well-accepted assumption that professional ethical standards relate to corporate ethical values in important and potentially complex ways, there is a paucity of significant empirical findings that link managers' perceptions of professional and organizational ethics with their assessments of the ethicality of business outcomes.

Corporate Ethical Values, Positive Budgeting, and Outcomes

Corporate ethical values “define the standards that guide the external adaption and internal integration of organizations...[and] influence organizations' product and service quality, advertising content, pricing policies, treatment of employees, and relationships with customers, suppliers, communities, and the environment” (Hunt et al. 1989, p. 79). It should follow that such values serve to define the ethical standards by which the organization adapts to its environments and ultimately affect business outcomes through internal marketing, accounting, finance, human resource, and other initiatives. Corporate ethical values should therefore affect business practices utilized in organizations. Corporate ethical values and other forms of ethical context are dynamic constructs that present varying multidimensionality based on contextual differences (Amyx et al., 2008), being influenced by ethics codes, training, rewards/sanctions relating to ethical/unethical conduct, ethical leadership, and other normative elements and affecting each element of the individual ethical reasoning process (Hunt & Vitell, 1986; Rest, 1986; Trevino & Nelson, 2004; Trevino et al., 1999; Valentine & Barnett, 2002, 2007; Valentine & Fleischman, 2004). Singhapakdi et al. (2010) claimed that:

...implicit ethics institutionalization refers to a work climate in which ethical behavior is understood by employees to be crucial in the makeup and functioning of the firm. For example, a company that has a high level of implicit ethics institutionalization is one that informally expects all of its managers...to demonstrate a high level of professionalism, honesty, and integrity. In contrast, explicit ethics institutionalization refers to the codification of ethical behavior in terms of codes of ethics, policy manuals, orientation programs, and ethics committees (p. 78).

The degree to which company officials and top management are proactively engaged in the advancement of business ethics also determines employees' perceptions of and commitment to ethical culture/climate (Chonko & Hunt, 1985; Hunt et al., 1985, 1989, Valentine & Barnett, 2002). A number of studies have found leadership to be the most important predictor of an organizations ethical climate, specifically through the mechanisms of referent power (Mayer et al., 2010) and transformational leadership (Engelbrecht et al., 2005). By contrast, the least important determinants of an organizations ethical climate are traditional top-down code governance systems based upon forced compliance, weak sanctions, limited buy-in, lack of clarity, lack of integrity, or conflicting standards when compared to professional associations or other governing bodies (Mabe & Rollin, 1986; Schwartz, 2000; Stevens, 2008; Trevino et al., 2003; Trevino & Weaver, 2003). Table 1 shows some empirically supported antecedents, outcomes, and moderator variables associated with corporate ethical values and other measure of ethical context. Research to date tends to identify (1) organizational (rather than professional) level variables as antecedents to corporate ethical values (Amyx et al. 2008; Valentine 2009; Valentine et al. (2011a), (2) organizational (rather than functional or support) level variables as outcomes of corporate ethical values (Amyx et al., 2008; Elci et al., 2007; Hunt et al., 1989; Jaramillo et al., 2006; Pettijohn et al., 2008;

Schwepker, 2001; Valentine, 2009; Valentine & Barnett, 2007; Valentine et al., 2011a), (3) the importance of testing for mediation when corporate ethical values is involved (Jaramillo et al., 2006; Singhapakdi et al., 1999; Valentine et al. 2006, 2011b), and (4) that corporate ethics may itself be a mediator variable associated with business outcomes (e.g., sales performance and job satisfaction) (Amyx et al., 2008). Generally speaking, corporate ethical values, ethical culture/climate, and other measures of company ethics are all considered similar reflections of ethical context (Jaramillo et al., 2006; Valentine & Barnett, 2007). Research supports the idea that ethical contexts (values, cultures, climates, etc.) differ in nature and complexity within functional areas of an organization (Weber, 1995).

Hunt et al. (1989) recommends that after first institutionalizing the ethical principles underlying policies and procedures, an organization should set specific ethical standards for positive marketing orientations in the areas of “product and service quality, advertising content, pricing policies, relationships with customers, suppliers, and all other exchange relationships that affect organizational success” (p. 88). Other research by Cohen and Reed (2006) seems to support a function-specific focus for ethical standards, whereby “people rely strongly on extremely context-specific attitudes rather than on the generalized attitudes that people would be more likely to hold and update in some enduring fashion” (p. 5). Given these positions, further research on corporate ethical values as contextualized in other high assay functional areas within an organization appears to be a valuable pursuit.

Corporate ethical values influence functional-level (or work group) outcomes. Specifically, certain types of employees (e.g., boundary spanning, marketing, accounting, human resources) may face unique ethical dilemmas due to pressures to make quotas, meeting the expectations of vested stakeholders, and equitably managing resources and budgets. As a result, unfair work environments may develop and put the organization at risk (Walker, 2009). Within the sales and marketing function, for example, DeConinck et al. (1995) found top performing salespersons were more likely to ‘get by’ with unethical behavior. Specifically, when sales managers observed the same unethical behavior from two salespersons, the poorer performing salesperson will be more strongly reprimanded (verbally or in writing), be less likely to get a pay raise or promotion, and be more likely to receive a cut pay or notice of termination of employment (DeConinck et al. 1995). By comparison, the same study found when sales managers perceived the salesperson’s act had positive consequences for the organization the reprimand was less severe. Amyx et al. (2008) advises sales managers to remedy unfair work environments and procedures, as doing so will enhance perceptions of corporate ethical values.

At an individual-level, research shows that different dimensions of corporate ethics affect employees’ ethical decisions. Smith et al. (2007) found that the decision to act unethically results more from the anticipated manager evaluation and expected outcomes of the act (i.e., likelihood of termination, loss of respect on the job or from friends or family, feelings of personal shame, loss of future potential, potential of hurting the company’s reputation, effect on career progress), rather than from the actual threat of legal action. Interestingly, anticipated manager evaluations of the act may encourage unethical behavior when supervisors utilize authority to demand misconduct from supervisees (Smith et al. 2007). However, there is little to no research to date that links professional ethical standards (as a separate entity from corporate ethical values) to functional-level outcomes.

One possible outcome of professional ethical standards and corporate ethical values is a positive budgeting orientation. Positive budgeting orientation represents an exploratory construct that has not been investigated in the budgeting ethics literature. The construct is comprised of positive components of a budgeting environment that help minimize budgetary slack in a business. For example, the construct includes factors such as budget employee motivation that maximizes value for stakeholders, management support of the budget, and budget processes that increase organizational value as well as planning control.

Table 1: Some Empirical Findings Identifying the Antecedents, Outcomes, and Moderators Associated With Corporate Ethical Values (CEV) and Other Measures of Ethical Context

Organizational Level Antecedent Variable	Focal Variable	Source
Group Creativity (positive)	CEV	Valentine et al. (2011a)
Ethics Training (positive)	CEV	Valentine (2009)
Fairness and Organizational Commitment (positive)	CEV	Amyx et al. (2008)
Organizational Citizenship Behavior (positive)	CEV	Amyx et al. (2008)
Focal Variable	Related Outcome	Source
CEV	Job Satisfaction (positive)	Amyx et al. (2008); Jaramillo et al. (2006); Pettijohn et al. (2008); Schwepker (2001); Valentine (2009); Valentine et al. (2011a)
CEV	Turnover Intention (negative)	Elci et al. (2007); Jaramillo et al. (2006); Pettijohn et al. (2008); Schwepker (2001) Valentine et al. (2011a)
CEV	Group Creativity (positive)	Valentine et al. (2011a)
CEV	Sales Performance (positive)	Amyx et al. (2008);
CEV	Ethical Intention (positive)	Valentine & Barnett (2007)
CEV	Organizational Commitment (OC) (positive)	Hunt, Wood, & Chonko (1989); Schwepker (2001)
Focal Variable & Indirect Outcome Variable	Mediated Relationship	Source
CEV * Job Response (i.e., Altruism)	Career Satisfaction (full mediation)	Valentine et al. (2011b)
CEV * Individual Work Attitudes (Satisfaction)	Perceived Organizational Support (partial mediation)	Valentine et al. (2006)
Ethical Climate (CEV proxy) * Job Performance	Job Stress and Job Attitude (mediation)	Jaramillo et al. (2006)
Ethical Climate (CEV proxy) * Reduced Turnover Intention and Increased OC	Role Conflict and Role Ambiguity (mediation)	Jaramillo et al. (2006)
CEV * Ethical Intention	Moral Philosophies and Perceived Moral Intensity (partial mediation)	Singhapakdi et al. (1999)
<i>Mediated Variables</i>	<i>Focal Variable as Mediator</i>	<i>Source</i>
Ethical Environments * Job Satisfaction and Sales Performance	Mediated by CEV	Amyx et al. (2008)

This table shows the relationship between corporate ethical values (CEV) and other antecedents, outcomes and moderators as they relate to the ethical context. The table also highlights the role that CEV has played in previous literature and assists the reader to identify the role CEV has employed as a mediating variable. The purpose of the table is to provide a snapshot of CEV in past literature to provide context for the role of CEV employed by the present study.

The positive budgeting orientation variable is included in this study to link professional ethical standards and corporate ethical values to another important business outcome. We contend that assessment and understanding of these relationships is important for addressing budgetary slack unethical behavior, which is widespread in contemporary business. At issue presently is the considerable anecdotal and empirical evidence that suggests that the budgeting process, if not carefully monitored and managed, often produces unintended incentives that may spur employees to unethically “game” the system. This budget gaming may surface in the form of budgetary *slack*, where employees are incentivized by salary and bonus budget performance targets to set such goals at levels *below* what could be considered employee maximum performance (Jensen, 2003). One researcher found that approximately 80 percent of study managers admitted to committing budgetary slack during their careers (Onsi, 1973). In fact, Walker et al. (2012) highlight literature that shows a significant association between financial incentives and budgetary performance that promotes budget gaming in the form of slack creation so that employees may be more likely to secure pay increases and/or bonuses (e.g., Chow et al., 1988; Healy, 1985; Jennergren, 1980; McNabb & Whitfield, 2007; Young, 1985).

In short, budget-based performance standards such as these often encourage unethical budget gaming where managers and employees manipulate and even lie about the budget (Jensen, 2003; Murphy, 2001). More extreme cases have been documented where budgetary gaming becomes increasingly widespread,

as does the severity of the unethical behavior, sometimes resulting in fraud used to meet predetermined performance goals (Jensen, 2003). Other outcomes of budgetary gaming may include employee work performance shirking (Jensen, 2003), as well as other suboptimal behaviors that compromise the budgetary process as a whole (Douglas & Wier, 2000; Dunk & Nouri, 1998; Lukka, 1988). It is noteworthy that budget gaming has also been associated with reduced firm performance and misallocated and inefficient use of resources, including lower return on investment (Bourgeois, 1981; Degeorge et al. 1999; Douglas & Wier, 2000; Jensen, 2003; Walker et al., 2012). We therefore believe that professional and corporate ethics work in concert to deter such negative behaviors. Figure 1 summarizes the study's proposed relationships. Based upon the preceding review of the relevant literature, the following hypotheses specifying the presence of full mediation among the focal variables are presented and tested in this study:

Hypothesis 1: Stronger perceptions of professional ethical standards are associated with increased perceptions of corporate ethical values.

Hypothesis 2a: Stronger perceptions of corporate ethical values are associated with increased beliefs about a positive budget orientation.

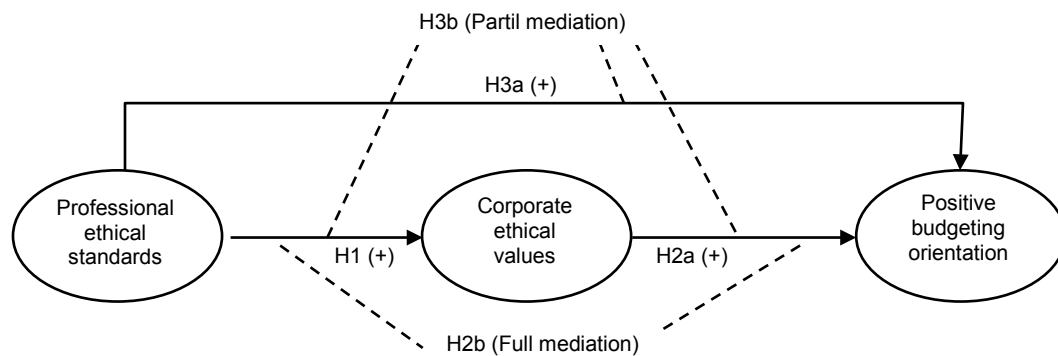
Hypothesis 2b: Perceived corporate ethical values fully mediate the relationship between perceived professional ethical standards and beliefs about a positive budget orientation.

In addition, the following hypotheses specifying the presence of partial mediation among the focal variables are presented:

Hypothesis 3a: Stronger perceptions of professional ethical standards are associated with increased beliefs about a positive budget orientation.

Hypothesis 3b: Perceived corporate ethical values partially mediate the relationship between perceived professional ethical standards and beliefs about a positive budget orientation.

Figure 1: Summary of Hypothesized Relationships



This figure shows the hypothesized relationships between the three focal variables in the study, namely professional ethical standards (PES), corporate ethical values (CEV), and positive budgeting orientation (PBO), where PES → CEV → PBO. The relationship is most adequately tested using path analysis, also referred to as structural equations modeling (SEM). Here, it is also hypothesized that CEV mediates (or at least partially mediates) the relationship between PES and PBO.

DATA AND METHODOLOGY

Information for this investigation was compiled from four separate sources using a self-report questionnaire that contained a variety of ethics and organizational measures. Forty-six completed surveys

were gathered from individuals enrolled in a training seminar offered by a large, regional chapter of the Institute of Management Accountants, while additional completed surveys were collected from individuals attending one of two online MBA programs offered by two different universities, or an on-campus MBA program offered by a large, urban university during the years 2005-2006. In order to enhance the quality of the responses, only individuals who were currently working and had acceptable job experience were asked to complete the questionnaire. Based on these efforts, a total of 290 surveys were secured for use in this investigation of occupational ethics and organizational budgeting.

Participants had an average age of 35.1 years, and a majority were men (65.2 percent), married (71.5 percent), white (79.6 percent), and educated (67.6 percent had either some graduate/professional education or a graduate/professional/doctoral degree). Average position tenure and occupational experience were 4.1 years and 9.6 years respectively, and individuals earned an average of slightly over \$75,470 per year in gross (base) salaries. Further, 11.6 percent of individuals were considered line managers, 34.9 percent were middle-level managers, and 15.5 percent were upper-level managers, while many did not supervise employees (38.0 percent). Subjects had an average of just over 8 employees working under their supervision. The professionals worked in varied occupational classifications, including Accounting and Finance (28.3 percent), Information Systems/Engineering (23.1 percent), Operations (16.1 percent), and Marketing/Sales (14.7 percent). Many individuals had limited (37.3 percent) or no budgetary job responsibilities (29.6 percent), while others had significant (18.1 percent) or extensive (15.0 percent) budgetary responsibility. Of the companies represented in the sample, many functioned in the manufacturing/consumer products (34.7 percent), services (14.0 percent, or financial services (12.3 percent) industries. With regard to company size, slightly over 19 percent of the organizations had fewer than 100 employees, 23.4 percent had 100 to 999 employees, 19.2 percent had 1,000 to 9,999 employees, and 38.1 percent had 10,000 or more employees. Based on these demographical characteristics, the study sample appears relatively ideal to test associations dealing with budgetary biasing, since these experienced professionals will likely have experienced budget-related ethical dilemmas some time in their careers.

Measures

Several measures appearing in past research were utilized in this investigation to assess the focal and control variables. In addition, a new scale was developed to measure perceptions of positive budgetary processes. These focal measures are presented in the Appendix. A five-item measure of professional ethical standards was utilized to assess professionals' beliefs about the positive values and practices embedded within a profession (Valentine and Fleischman, 2008b). As a whole, this measure taps critical elements of ethics within a profession, such as developing ethical standards and reprimanding unethical individuals/companies. Items were rated on a seven-point scale comprised of "1-strongly disagree," "2-moderately disagree," "3-slightly disagree," "4-neither agree nor disagree," "5-slightly agree," "6-moderately agree," and "7-strongly agree," with higher item values representing increased professional ethics. The scale's coefficient alpha was 0.88.

A five-item measure developed by Hunt et al. (1989) was used to assess individuals' perceptions of corporate ethical values. This measure has been utilized by many scholars to evaluate to the degree to which companies (and corporate leaders) are actively involved in the management and promulgation of business ethics (e.g., Paolillo & Vitell, 2002; Singhapakdi et al., 1999; Valentine & Barnett, 2007; Valentine et al., 2006). Items were once again rated on a seven-point scale comprised of "1-strongly disagree," "2-moderately disagree," "3-slightly disagree," "4-neither agree nor disagree," "5-slightly agree," "6-moderately agree," and "7-strongly agree," and after reverse scoring two statements, higher item values indicated increased ethical values. The coefficient alpha of the scale was 0.86.

Fifteen items were developed to measure an organization's budgetary orientation in this study, and much

of this development stemmed from current understanding of various budget management practices. These fifteen statements were rated on a seven-point scale comprised of “1-strongly disagree,” “2-moderately disagree,” “3-slightly disagree,” “4-neither agree nor disagree,” “5-slightly agree,” “6-moderately agree,” and “7-strongly agree.” A preliminary principal components factor analysis with varimax rotation was used to determine to measurement characteristics of the items, and four factors emerged with initial eigenvalues of 4.34, 1.51, 1.12, and 1.03 respectively and 28.92 percent, 10.07 percent, 7.47 percent, and 6.88 percent of explained variance. Seven items that loaded effectively on the first factor with loading greater than 0.57 were included in a new factor analysis, which yielded a one-factor solution with an eigenvalue of 3.44 and 49.21 percent of explained variance, and factor loadings ranged from 0.65 to 0.75. The items covered such practices as developing motivational budget targets, getting support from top leadership in the budgetary process, using budgets to strengthen value, and including budgets in strategic planning, coordination, and benchmarking activities, actions that collectively represents a positive budgeting orientation. Consequently, higher item scores represented increased positive budgeting, and the coefficient alpha of the measure was 0.83.

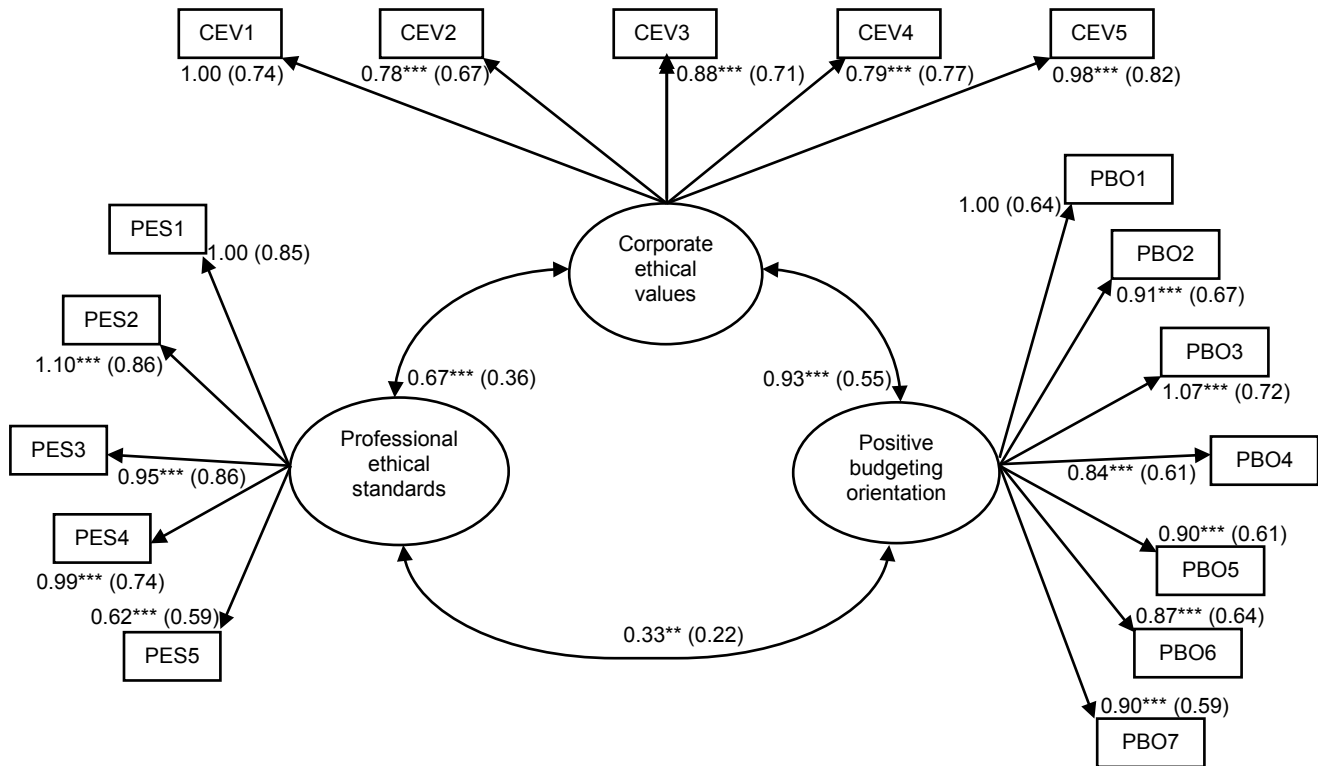
Social desirability was included as a control in the analysis to account for the participants’ motivation to provide socially correct responses, a tendency that can often be a concern in ethics research (Randall & Fernandes, 1991). A ten-item version of the Marlowe-Crowne scale was used to account for such bias (Crowne & Marlowe, 1960; Fischer & Fick, 1993; Strahan & Gerbasi, 1972). Sample items include “I have never deliberately said something that hurt someone’s feelings,” and “I have never been irked when people expressed ideas very different from my own,” and statements were rated with “1-False” or “2-True.” After reverse scoring five items, values were added together for a possible range of values from 10 to 20, with higher composite scores indicating elevated social desirability.

Using AMOS 6.0, an initial confirmatory factor analysis containing the three focal measures was specified to verify the measurement properties of these scales. Variable descriptive statistics and correlations were then examined in SPSS 12.0 to investigate the relationships among the control and focal variables. Lastly, a structural analysis was conducted in AMOS to test the proposed mediating role of corporate ethical values in the proposed positive relationship between professional ethical standards and a positive budgeting orientation, which required the specification of full mediation and partial mediation structural models (see James & Brett, 1984; James et al., 2006; Schneider et al., 2005).

RESULTS AND DISCUSSION

The confirmatory factor analysis of the focal variables, which is presented in Figure 2, yielded good fit statistics: $\chi^2 = 257.702$, d.f. = 116, $p < .001$, $\chi^2 / \text{d.f.} = 2.222$, NFI = 0.889, IFI = 0.935, CFI = 0.934, RMSEA = 0.065. The items were all significantly related to their associated latent constructs ($p < .001$), and the standardized parameter estimates were greater than 0.50. The professional ethical standards and corporate ethical values variables were positively related (covariance = 0.668, $p < .001$; correlation = 0.362), corporate ethical values was positively related to positive budgeting orientation (covariance = 0.929, $p < .001$; correlation = 0.555), and professional ethical standards were positively related to positive budgeting orientation (covariance = 0.325, $p < .01$; correlation = 0.220).

Figure 2: Results of Confirmatory Factor Analysis



The figure shows the results of the confirmatory factor analysis. The confirmatory factor analysis represents the final stage of the structural equations modeling (SEM) process which is also sometimes referred to as path analysis. In short, the above figure displays the statistically significant results that relate from the two-way relationships between the three focal variables in the study, namely corporate ethical values (CEV), professional ethical standards (PES) and positive budgeting orientation (PBO). In the above figure standardized estimates/correlations are presented in parentheses. *** and ** indicate significance at the 0.001 and 0.01 (0.1 and 1.0 percent) levels, respectively.

Using the standardized regression weights (see Hair et al., 1998), composite reliability scores for professional ethical standards, corporate ethical values, and positive budgeting orientation were 0.89, 0.86, and 0.83 respectively, and the variance-extracted estimates were 0.62, 0.55, and 0.41, which demonstrated adequate measurement properties. Additionally, the variance-extracted estimates were all higher than the squared correlations among the unobserved variables, providing evidence of discriminant validity (see Fornell and Larcker 1981). A single-factor test, originally proposed by Harman (1967), was also specified to determine whether common method bias was an issue in this study (see Podsakoff et al., 2003). After loading all of the observed items on one latent construct, the model produced poor fit statistics ($\chi^2 = 1195.064$, d.f. = 119, $p < 0.001$, $\chi^2 / \text{d.f.} = 10.043$, NFI = 0.483, IFI = 0.509, CFI = 0.502, RMSEA = 0.177), which suggested that common method bias was not present in this investigation.

The variable descriptive statistics for the focal and control variables and associated correlations are presented in Table 1. The mean values for the professional ethical standards, corporate ethical values, and positive budgeting orientation variables indicated that the professionals believed their organizations and professions were relatively well-managed from both ethical and budgetary perspectives. The mean value for social desirability indicated that individuals were influenced by only modest impression management. Positive budgeting orientation was positively related to corporate ethical values and professional ethical standards, and corporate ethics was positively related to professional ethics. These findings suggest that ethical environments in both professions and companies are associated with enhanced budgetary

practices. Finally, the social desirability scale was not related to any of the focal variables, which indicated that such bias was not a major concern in this study.

Table 2: Variable Descriptive Statistics and Correlations

Variable	<i>M</i>	<i>SD</i>	<i>N</i>	1	2	3	4
1. Professional ethical standards	5.69	1.26	289	--			
2. Corporate ethical values	5.48	1.39	287	0.33 ***	--		
3. Positive budgeting orientation	4.84	1.18	279	0.20 ***	0.48 ***	--	
4. Social desirability	14.93	2.03	284	0.04	0.01	-0.03	-

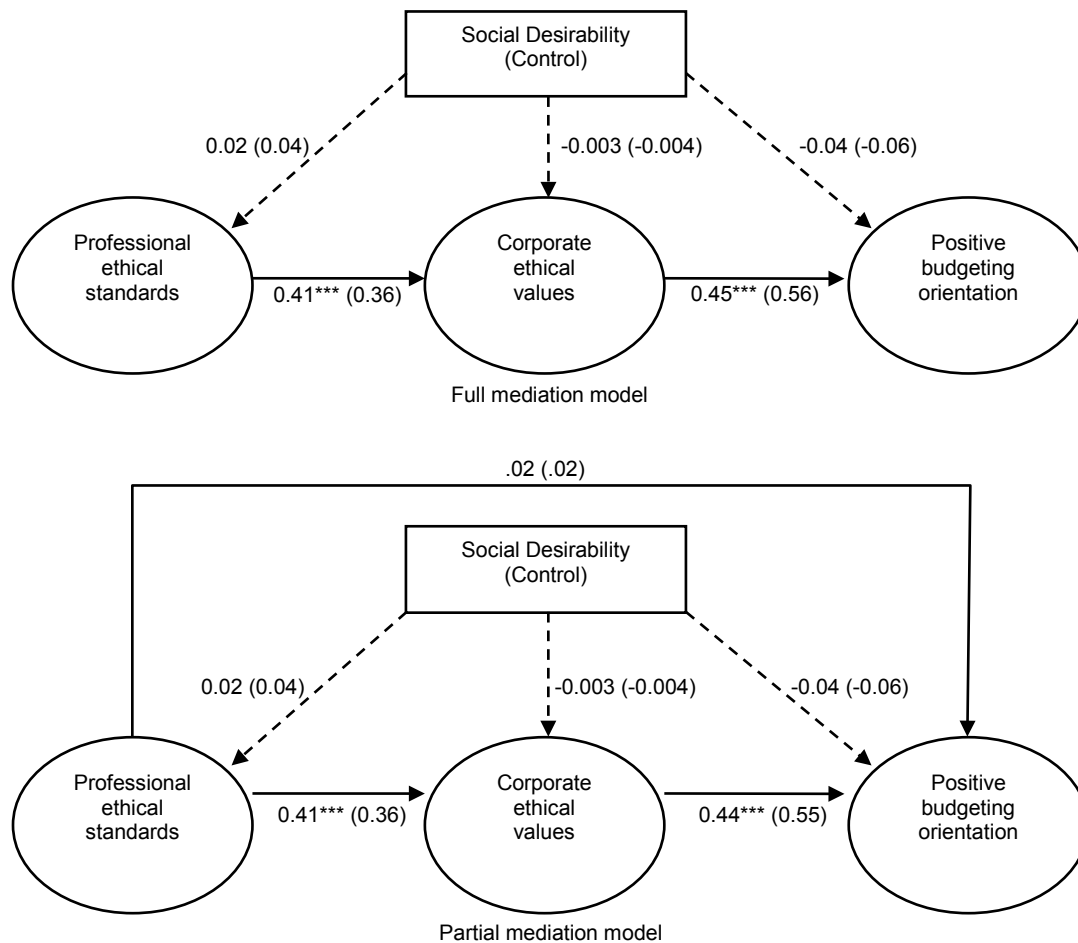
*This table shows the descriptive statistics, including means and standard deviations, as well as the correlations for the three focal variables in the study, along with the social desirability control variable. ***indicates significance at the 0.001 level (0.1 percent). None of the other correlations were significant at $p < 0.10$. The table highlights that there are strong correlations among the three focal variables professional ethical standards (PES), corporate ethical values (CEV), and positive budgeting orientation (PBO). It is noteworthy that social desirability bias does not seem to be a problem in this study as evidenced by the lack of significance associated with this variable.*

The findings associated with the mediated regression analysis are summarized in Figure 3. The full mediation model displayed acceptable fit statistics ($\chi^2 = 264.829$, d.f. = 131, $p < 0.001$, $\chi^2 / \text{d.f.} = 2.022$, NFI = 0.886, IFI = 0.939, CFI = 0.938, RMSEA = 0.059), the items were positively related to the latent variables ($p < 0.001$), and the standardized regression weights were all above a value of 0.50. Professional ethical standards were associated with increased corporate ethical values, which provided adequate statistical support for Hypothesis 1. Corporate ethics was also associated with increased positive budgeting, thereby providing adequate support for Hypotheses 2a and 2b. None of the focal variables in the model were associated with the social desirability measure. These results suggested that professional ethics operates through corporate ethics to influence positive budgeting, but the specification of a partial mediation model was necessary to support this assertion. The partial mediation framework also provided sound fit statistics ($\chi^2 = 264.688$, d.f. = 130, $p < .001$, $\chi^2 / \text{d.f.} = 2.036$, NFI = 0.886, IFI = 0.939, CFI = 0.937, RMSEA = 0.060). Once again, the items were positively related to the latent variables ($p < 0.001$), and the standardized regression weights were all above 0.50. Professional ethical standards were positively related to corporate ethical values, ethical values were positively related to a positive budgeting orientation, and professional ethical standards and positive budget orientation were unrelated. The social desirability measure was also unrelated to the focal variables. A chi-square difference test indicated that the partial mediation model was not significantly better than the full mediation model (χ^2 difference = 0.141, d.f. difference = 1), showing that corporate ethics fully mediated the positive relationship between professional ethics and positive budgeting. Further support was therefore provided for Hypotheses 2a and 2b, and Hypotheses 3a and 3b were not supported.

CONCLUDING COMMENTS

Our findings showed a positive association between individuals’ perceptions of professional ethical standards and their perceptions of corporate ethical values (support provided for Hypothesis 1). In addition, a positive relationship was identified between perceived corporate ethical values and a positive budgeting orientation practiced by employers (support provided for Hypotheses 2a and 2b). Perceptions of professional ethical standards and a positive budgeting orientation were unrelated in the presence of the other focal variable (support not provided for Hypotheses 3a and 3b). Overall, the findings indicated that ethical environments in both professions and organizations should trigger enhanced ethical budgetary practices. However, corporate ethical values appear to fully mediate the positive relationship between professional ethical standards and a positive budgeting orientation. In other words, professional ethics operates through corporate ethics to indirectly influence a positive budgeting orientation.

Figure 3: Results of Mediation Analysis



The figure shows the results for the full mediation model (above) as well as the partial mediation model (below the full mediation model) where standardized estimates are presented in parentheses (measurement models not shown). *** indicates significance at the 0.1 percent levels respectively. In sum, the above figure displays that professional ethical standards (PES) were positively associated with corporate ethical values (CEV), and CEV was positively associated with positive budgeting orientation (PBO), but PES was not statistically related to PBO. Therefore, CEV both partially mediates and fully mediates the relationship between PES and PBO. A chi-square difference test indicated that the partial mediation model was not significantly better than the full mediation model, which underscores the contention that CEV fully mediates the positive relationship between PES and PBO.

Ultimately, the findings support the idea that corporate ethical values are the catalyst to a positive budget orientation through managerial ethical action and support of the budgeting process, suggesting a tight interconnection between the two factors. Managerial action and support are therefore key drivers in an organizational environment to set the “tone at the top” (Cohen et al., 2007). For example, the domain of corporate ethics focuses on managerial ethical deportment and behavioral *actions*, which tie directly to implicit managerial support of an ethically healthy budgetary environment. Managers cannot *support* an ethical environment if they do not personally act in an ethical manner, and such ethical conduct is necessary for effective and sufficient support of a positive budgeting orientation. As mentioned previously, professional ethics help augment corporate ethics through occupational guidelines and monitoring that reinforces ethical work conduct, ultimately strengthening the ethical context.

The fact that our findings identify corporate ethical values as the mediating construct between professional ethics and positive budgeting demonstrates further the contention that organizational ethical context should be strategically managed. In particular, the rampant incidence of unethical slack creation

in connection with the budgeting process may likely be curtailed by systematically enhancing the ethical context with effective ethics programs. The budgetary ethics literature is supportive of this idea that ethical context is needed to mitigate unethical budgetary biasing and slack creation by creating an environment that discourages these behaviors through peer pressure and positive norms (e.g., Douglas & Wier, 2000; Stevens, 2002; Wakefield, 2008; Wong-On-Wing & Gladie, 2007).

Valentine and Fleischman (2008a) suggest a number of ethics programs to institutionalize an ethical context. For example, using ethics codes, effective communication, and ethics training should collectively improve employee moral reasoning and invigorate the “ethical focus and culture of the organization” (Valentine & Fleischman 2008a, p. 167). It is also necessary to tailor training workshops and role-playing so that key ethical issues and concerns are covered (Sims, 1991; Trevino, 1986; Valentine & Fleischman, 2008a). In the present context, workshops should involve realistic budget-based moral dilemmas tied to slack creation opportunities. As a pragmatic matter, management should be careful to minimize budget construction that indirectly incentivizes employees to create slack. In that vein, the competitive environment should be somewhat tempered so that employees do not feel compelled to cheat in order to survive. This study contributes to the business ethics literature in general, and to the field of budgetary ethics in particular, by demonstrating that perceived corporate ethical values fully mediate the linkage between perceived professional ethical standards and a positive budget orientation.

The study is also pragmatically useful to companies wishing to minimize budgetary slack creation through the institutionalization of an effective ethical context with positive business values. Furthermore, this is the first study that identifies relationships among the professional ethical standards, corporate ethical values, and positive budgeting orientation constructs. We assert that a better understanding of these linkages is essential for addressing budgetary slack unethical behavior that has dominated the workplace for nearly half a century. Future research can build on this framework as scholars continue to pursue remedies to curtail incidences of budgetary slack.

Although we contend this research contributes to the budgetary ethics literature, we wish to address limitations of the study. The survey was gathered using a convenience sample, so self-selection bias may exist because respondents may possess greater altruism and interest in the topic than the population as a whole. In addition, most of the respondents were graduate students, but their extensive work experience mitigates this concern (occupational tenure was just under 10 years with an average of eight subordinates). Our particular sample was primarily comprised of educated white professionals who work in the business sub-disciplines at relatively large organizations that would likely experience budgeting ethical dilemmas firsthand, so caution should be used to not generalize our findings to other demographic/professional groups. As with most ethics-oriented empirical research, social desirability bias was a concern. However, we controlled for this tendency, and the associations with the focal variables were insignificant. As with any survey, common method bias is also a concern. Yet, we also tested for such bias and concluded that it was likely not a problem.

Finally, we did not wish to imply causality with any of our assertions/conclusions. Based on our findings, we suggest that scholars include constructs for professional ethics, corporate ethics, and positive budgeting in future research dealing with budgetary slack unethical behaviors. Budgetary biasing vignettes could be assessed in conjunction with these three focal variables with more diverse samples to further push the literature. Finally, multiple-year case study research employing a number of corporations could be used to observe the interaction of the three constructs in diverse, longitudinal, real-world settings.

APPENDIX

Focal Measures

Professional Ethical Standards

- PES1. I believe that my profession is guided by high ethical standards.
PES2. My profession reprimands individuals and companies that behave unethically.
PES3. Individual and organizational ethical standards are supported in my profession.
PES4. My profession encourages continued ethical development and training.
PES5. I believe that people in my profession conduct business in an ethical manner.

Corporate ethical values

- CEV1. Managers in my organization often engage in behaviors that I consider to be unethical. (R)
CEV2. In order to succeed in my organization, it is often necessary to compromise one's ethics. (R)
CEV3. Top management in my organization has let it be known in no uncertain terms that unethical behaviors will not be tolerated.
CEV4. If a manager in my organization is discovered to have engaged in unethical behavior that results primarily in *personal gain* (rather than organizational gain), he or she will be promptly reprimanded.
CEV5. If a manager in my organization is discovered to have engaged in unethical behavior that results primarily in *organizational gain* (rather than personal gain), he or she will be promptly reprimanded.

Positive budgeting orientation

- PBO1. My organization's budget motivates individuals to take actions that maximize value for customers and shareholders.
PBO2. Upper-level management in my organization strongly supports and believes in the budgeting process as a whole.
PBO3. My organization's budget is based on departmental improvements in close agreement with broad strategic objectives.
PBO4. My organization's budgets are linked through central coordination of annual departmental and business unit budgets.
PBO5. My organization does control performance against trends, leading indicators, and rolling forecasts.
PBO6. My organization's budget process does create value for my organization.

This table shows the specific items that compose the constructs for the three focal variables professional ethical standards (PES), corporate ethical values (CEV), and positive budgeting orientation (PBO), where (R) = reverse coded items.

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