Better than ever? Employee reactions to ethical failures in organizations, and the ethical recovery paradox

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Organizational ethics is an issue of great importance. Firms invest considerable resources in ethics compliance, education, and training. For example, the cost of compliance with just Section 404 of the Sarbanes–Oxley Act (a portion of the act aimed at accounting fraud) is estimated at $2.3 million per firm (Freeman, 2009). Despite investments like this, unethical activity continues to exert a heavy toll on organizations. Workplace fraud alone—be it stealing $20 from a cash register or siphoning millions through sophisticated embezzlement schemes—is estimated to cost organizations nearly five percent of their annual revenues, which translates to more than $760 billion per year in the U.S. (Association of Certified Fraud Examiners, 2012). Finally, the cost of ethical failure is not limited to the failure itself. The ethical lapse of a single individual can result in widespread reputational and financial damage to an entire organization.

The lesson from news accounts is that ethical failures happen, both in good organizations and in bad. Even the most conscientious organizations occasionally find themselves on the wrong side of ethical events. In this research we seek to understand two important but understudied aspects of ethical failures: (1) the internal impact on employees of witnessing ethical lapses in the organization and (2) the effectiveness of organizational attempts to recover from them. In particular, we investigate whether effective recovery efforts on the part of the organization can mitigate or even reverse the negative impact on employees (i.e., their view of the organization and their relationship with it) of witnessing unethical activity.

This research contributes to the behavioral ethics literature in four ways. First, by examining what happens in the aftermath of an unethical event, we explore an overlooked area of ethics research. Most ethics research focuses on the causes of ethical failure, but in this study we investigate consequences: the impact unethical acts have on employees who witness them. This speaks directly to concerns raised in major reviews of the behavioral ethics literature, that more attention needs to be paid to the consequences of unethical behavior in organizations (Tenbrunsel & Smith-Crowe, 2008; Treviño, Weaver, & Reynolds, 2006). Second, we examine the extent to which it is possible for organizations...
to recover from such ethical failures. Drawing on research that explores how organizations respond to service delivery failures, we craft a framework for exploring whether ethical recovery efforts can repair the damage caused by ethical failures. Third, building on the relationship repair literature, we extend this framework from individual-level indicators of repair to include relational and systemic (organization-level) aspects as well. Finally, we explore the possibility of an ethical recovery paradox, in which exemplary recovery efforts on the part of the organization may actually enhance the employee-organization relationship, elevating it to a more positive level than if no ethical failure had occurred.

**Ethical failure and recovery**

Managing organizational failure and recovery has been a topic of interest among organizational scholars and practitioners for decades. Insights on organizational failure have spanned issues ranging from failures in trust (Dirks, Lewicki, & Zaheer, 2009), production (Friel, 2005), safety (Mehri, 2006), leadership (Kroll, Toombs, & Wright, 2000), strategy (Muehlfeld, Rao Sahib, & Van Witteloostuijn, 2012), and justice (Andiappan & Treviño, 2011; Liao, 2007; Reb, Goldman, Kray, & Cropanzano, 2006). One of the most compelling streams of research relating to organizational failure and recovery involves service failures, how organizations respond to such failures, and how individuals react to those responses.

**The service recovery paradox**

McCollough and Bharadwaj (1992) coined the term “service recovery paradox” to describe what happens when an organization fails in its attempt to provide quality service, but recovers from that failure in a highly effective way. They found that a well-executed service recovery may actually result in higher customer satisfaction than if no failure had occurred in the first place. In describing the phenomenon, Hart, Heskett, and Sasser (1990) noted, “a good recovery can turn angry, frustrated customers into loyal ones. It can, in fact, create more goodwill than if things had gone smoothly in the first place” (p. 148). Meta-analytic research has corroborated the existence of this service recovery paradox with respect to customer satisfaction with the organization (Matos, Henrique, & Rossi, 2007). Thus, service failures—and efforts to recover from those failures—have come to be viewed as opportunities for organizations to enhance customer satisfaction (Magnini, Ford, Markowski, & Honeycutt, 2007), although research does not suggest ineffective service followed by outstanding recovery as a viable long-term strategy (Michel & Meuter, 2008).

The service recovery literature provides a conceptual foundation for understanding organizational recovery efforts more generally. The expectancy disconfirmation paradigm (Oliver, 1980, 1993, 1997) is the most widely utilized framework in the consumer satisfaction literature, and service recovery researchers have adopted it to explain consumer satisfaction with organizational recovery attempts in general (Oliver, 1980; Singh & Widing, 1991) and the service recovery paradox in particular (Matos et al., 2007; McCollough, Berry, & Yadav, 2000).

The expectancy disconfirmation paradigm proposes that individuals do not evaluate product or service performance on an absolute scale. Rather, they compare actual performance with their a priori expectations of performance. If performance meets or exceeds expectations, confirmation happens, and the result is satisfaction. If performance falls short of expectations, disconfirmation happens, resulting in dissatisfaction.

In recovery situations, a related but more complicated series of events occurs. Individuals possess multiple expectations regarding service deliveries, including service expectations, failure expectations, and recovery expectations. Service expectations reflect an individual’s standard of adequate levels of delivered service quality. Failure expectations reflect an individual’s understanding that a service failure might happen, even when dealing with reliable service providers (Fisk, Brown, & Bitner, 1993). For example, failure expectations are evidenced by an individual’s interest in items like warranties and refund policies, even when dealing with reliable firms. Recovery expectations reflect an individual’s beliefs about how the organization is likely to respond to a failure, should one happen (McCollough et al., 2000).

In a failure recovery situation, overall satisfaction therefore involves two disconfirmation events rather than one: initial disconfirmation and recovery disconfirmation. Initial disconfirmation reflects the difference between failure expectations and service expectations. Recovery disconfirmation reflects the difference between recovery expectations and actual recovery performance. When a failure happens, a negative initial disconfirmation may occur, but if the failure was anticipated as a possibility, individuals may withhold final judgment on the overall event until recovery is complete. Research suggests that once in a recovery situation, it is recovery expectations—rather than initial service or failure expectations—against which the final efforts are judged (Kelly & Davis, 1994; Oliver, 1980; Singh & Widing, 1991).

The expectancy disconfirmation paradigm provides a general framework for understanding the impact of organizational failure and subsequent recovery efforts. We suggest it is therefore relevant to ethical failure and recovery, and for understanding the emergence of an ethical failure recovery paradox. Specifically, an employee who has witnessed an ethical failure in the organization, followed by an effective internal recovery effort by the organization, may view the organization more positively than if he or she had not witnessed an ethical lapse at all.

**Organizational ethical failures**

Ethical failures in organizations may take many forms. They may be minor or severe, may reflect individual or collective actions (e.g., board or committee decisions), and may affect internal or external targets. In this study we focus on organizational ethical failures through the eyes of employees. We examine the impact on workers of personally observing conduct at work that violates company standards, policies, or the law, and efforts on the part of the organization to recover from those failures.

Employees, scholars, and the public often anthropomorphize organizations, as illustrated in statements like, “General Motors laid off 1200 workers this week.” However, organizations do not act; only individuals act. So in one sense, there is no such thing as an organizational ethical failure, but only the ethical failure of specific individuals (or groups of individuals) within organizations.

Nonetheless, employees often view the actions of organizational members as representing the organization, and they therefore form attitudes and beliefs about their organization based on the behavior of the people in it (Dean, Brandes, & Dharwadkar, 1998). The literature refers to the individuals who shape employee perceptions of the organization as “relational others” (Sluss & Thompson, 2012). These relational others include both supervisors and coworkers, and the actions of each are commonly viewed as representing actions of the organization itself.

For example, from the employee’s perspective, supervisors are traditionally assumed to personify or embody the organization and to represent a credible and appropriate agent of the organization (Sluss, Ployhart, Cobb, & Ashforth, 2012). Supervisory actions are therefore viewed as being carried out on behalf of the organization (Eisenberger et al., 2010; Neves, 2012). As Treviño and Nelson (2011) note, “managers are the lens through which employees
view the company...to many employees, managers are the company” (p. 310).

Coworkers represent a second important set of relational others whose actions may be seen as representing the organization itself. Coworkers represent a vital part of the work environment, and the lateral relationships between employees and coworkers are key in defining employee role perceptions (Chiaburu & Harrison, 2008). Further, coworker behavior and interactions may shape the very nature of an employee’s work roles (Ilgen & Hollenbeck, 1991), for example by reducing role ambiguity and role conflict (Chiaburu & Harrison, 2008). Thus, coworker actions not only reflect the organization and its goals, they figuratively “make the place” (Schneider, 1987) and therefore, in the eyes of employees, are the organization. Meta-analytic research demonstrates these coworker effects are generally as large as (and often larger than) corresponding supervisory effects (Chiaburu & Harrison, 2008).

In all, the phrase “organizational ethical failure” may be a misnomer. Organizations do not behave or misbehave, but in organizational settings, supervisors and coworkers do. To employees, the behavior of these relational others often represents the organization. Therefore, the term organizational ethical failure provides a convenient shorthand for a broad constellation of unethical actions at work that are perpetrated by individuals who are, in the eye of the employee, “the organization.” Examples might include supervisory sexual harassment, discrimination, or abuse, or coworker theft, fraud, or misreporting. Below, we refer to events like these as organizational ethical failures.

Recovering from ethical failure

The expectancy disconfirmation paradigm suggests an organizational ethical failure will trigger a two-stage response in an employee. First, an initial negative disconfirmation event for the employee results in dissatisfaction with the organization and its ethical standards (i.e., initial disconfirmation). However, because employees recognize that some level of unethical activity may be inevitable in organizations, they withold final judgment until the organizational recovery event is complete (i.e., recovery disconfirmation). The recovery event provides the organization an opportunity to shift the employee focus away from initial expectations and toward recovery expectations. If the organization is able to provide a quality recovery effort, a second (and more positive) disconfirmation process will occur. The result will be a more positive impression of the organization than existed immediately after the failure. Further, if the recovery effort is of high enough quality, it may result in a more positive impression than would exist had no failure occurred: an ethical recovery paradox.

The service recovery literature defines a quality recovery as one that is fair with respect to both processes and outcomes (Tax, Brown, & Chandrashekaran, 1998). Operationally, this implies organizational efforts to rectify the situation, amend procedures to prevent future failures, and restore the loss experienced by the victim (Hess, Ganesan, & Klein, 2003).

In making the transition from the service recovery process to the ethical recovery process, two important differences must be addressed. The first dimension on which ethical recovery efforts may appear to differ from service recovery efforts involves the relational status of the parties involved: the organization and its customer versus the organization and its employee. The service recovery literature in particular rests on the assumption that customers have established relationships with the organizations with which they do business (Matos et al., 2007). Theoretical arguments researchers provide for explaining recovery attempts and the recovery paradox build on the notion that service failures may fracture this relationship and that sound recovery efforts emphasize relationship repair. This focus on the relationship between the consumer and the organization plays a major role in the service recovery literature (Magnini et al., 2007; Morgan & Hunt, 1994; Tax et al., 1998).

In conceptualizing recovery from ethical failure, the focus shifts from an organization’s relationships with its customers to its relationships with its employees, but the dynamics of these two relationship types are similar. Like customers, employees form relationships with their organizations (Shore & Coyle-Shapiro, 2003). These relationships are characterized by trust and obligation (Blau, 1964), and individuals strive to establish balance in the inputs and outcomes involved in their relationships with their organizations (Adams, 1965). A fundamental assumption of most employment relationships is honorable behavior on the part of the organization (Gillespie & Dietz, 2009). If that balance is disrupted, such as when an unethical event occurs, it will influence an employee’s assessment of the quality of the relationship, and may result in relational harm. Thus, we view the relational repair aspect of the service recovery literature as parallel to that of the ethical recovery setting.

The second dimension on which ethical recovery efforts may differ from service recovery efforts is on the breadth of their impact on employee outcomes. The service recovery literature demonstrates that quality recovery efforts translate to higher customer satisfaction, but research has not shown the service recovery paradox to generalize to other customer outcomes like repurchase intentions and word-of-mouth behavior (Matos et al., 2007). The question then arises as to whether the impact of ethical recovery is narrow like that of service recovery efforts, or whether it exerts a more general set of effects.

Relationship repair

The relationship repair literature posits that employees have complex, multifaceted relationships with their organizations (Dirks et al., 2009). Thus, when an organizational failure occurs, employees may have mixed reactions with respect to the impact of that failure on various aspects of the relationship. A supervisor may be abusive in her interactions with employees, but she may be an excellent content or process expert, able to solve problems in the workgroup that allow group members to be more productive and prosperous. So the question is whether the relational harm that results from her abusiveness is likely to carry over into other aspects of the relationship as well. It is possible for employees to be ambivalent about their relationships with their organizations, holding positive impressions about some dimensions and negative impressions about others (Dirks et al., 2009). Therefore, it is not necessarily the case that a specific relation-damaging failure on the part of the organization will harm employee perceptions of the organization across all dimensions.

However, ethics-based failures may have a more generalized impact than other types of failure. Research indicates that the impact of ethical failures (e.g., those involving the integrity or values of a party) has significant potential to spill into other aspects of the relationship (Kim, Ferrin, Cooper, & Dirks, 2004; Sitkin & Roth, 1993), for two reasons. First, issues of character may be viewed as an important aspect of the violating party’s essential nature, which is likely to manifest itself across situations (Dirks et al., 2009). Second, the emotional aspect of ethical violations may also serve to increase the generalizability of negative responses to them. For example, Trafimow, Bromgard, Finlay, and Ketelaar (2005) demonstrated that ethical transgressions result in stronger negative affective responses than those not involving ethical violations. This increased level of negative emotions may make it more difficult to isolate one’s responses to the specific issues at hand, such as an individual who cheats at golf being more likely to be perceived as cheating in business as well (Dirks et al., 2009).
We therefore anticipate ethical failures are likely to influence a broader array of outcomes than service failures. Drawing on the relational repair literature, we identify three different types of outcomes that recovery efforts may affect: individual, relational, and systemic.

Research on repairing organizational relationships points first to aspects of the restoration process that exist at the level of the individual victim (Dirks et al., 2009; Ren & Gray, 2009). A party that perceives itself to have been harmed by another draws negative inferences about the transgressor’s traits and intentions. An effective recovery must therefore provide the wronged party with positive information sufficient to overcome the negative inferences drawn from the transgression. This may involve information that communicates that the failure was not an indicator of the violator’s true nature, or information that suggests the violator has sought redemption (Dirks et al., 2009). At this individual level, the quality of repair is reflected in attributions made by the wronged party, with the effectiveness of the recovery effort indicated by the extent to which the victim is satisfied with the transgressor’s recovery attempts (Ren & Gray, 2009). We therefore follow the service recovery literature (Matos et al., 2007) in looking to satisfaction with the organization’s recovery efforts as an indicator of whether the relationship has been repaired successfully or not.

This literature identifies relational outcomes as a second component of effective recovery efforts. The relational aspects of recovery depend on repairing what Ren and Gray (2009) refer to as “ruptures of the social order” (p. 107). Dirks et al. (2009) argue that these disruptions call into question the relative standing of each party and the norms that govern the relationship, thus creating social disequilibrium. Effective recovery efforts therefore must be aimed at repairing the quality of the relationship itself, rather than just the attitudes of one party toward the other. Dirks et al. point to the quality of the exchange between the organization and the employee as an example of such repair. Perceived organizational support (POS) provides an indicator of the quality of exchange relationship between an employee and his or her organization (Eisenberger, Huntington, Hutchison, & Sowa, 1986; Settoon, Bennett, & Liden, 1996). Therefore, we utilize perceived organizational support (POS) on the part of the employee as an indicator of whether the quality of the exchange relationship has been repaired.

In addition to individual and relational outcomes, research also points to the impact that organizational failures may have on systemic-level outcomes (Gillespie & Dietz, 2009; Rhee & Valdez, 2009) such as those involving the organization overall. In this case the systemic-level factor of interest is the overall ethicality of the organization, as seen through the eyes of the employee. Evidence suggests that perceptions of ethics, integrity, and environmental and social responsibility play a strong role in determining organizational reputation (Dollinger, Golden, & Saxton, 1997; Galbreath, 2010; McGuire, Sundgren, & Schneckweis, 1988; Preston & O’Bannon, 1997), and an organizational reputation for ethicality and social responsibility may confer numerous advantages, both financial and nonfinancial (Galbreath, 2010; Orlitzky, Schmidt, & Rynes, 2003). Further, research indicates the advantages of being viewed as an ethical organization apply to employee-specific outcomes like increased employee attraction (Gatewood, Gowan, & Lautenslager, 1993; Turban & Greening, 1997) and retention (Stewart, Volpone, Avery, & Mckay, 2011). Maintaining a reputation for ethicality in the eyes of employees therefore represents an important organizational goal. Thus, we look to employee assessments of the overall ethicality of their organization as a gauge of whether the organization has been successful in recovering from its ethical failure.

In all, we suggest ethical failures on the part of an organization may harm its relationship with its employees. This harm may be manifested across individual, relational, and systemic outcomes, and organizational attempts to recover from the ethical failure may result in relationship repair across each of these levels. Further, in the case of very high quality recovery efforts, an ethical recovery paradox may emerge, in which employee perceptions of the organization are even higher than if no ethical failure had occurred. Thus, we hypothesize:

**Hypothesis 1.** The quality of an organization’s ethical recovery attempt will be related to employee assessments of the organization on individual, relational, and systemic dimensions (satisfaction with the organization, POS, and organizational ethicality, respectively).

**Hypothesis 2.** High quality ethical recovery attempts will result in more positive employee assessments of the organization than if no ethical failure had occurred (an ethical recovery paradox will emerge).

**Moderators**

Although meta-analysis has confirmed the existence of the service recovery paradox (Matos et al., 2007), it does not appear to be a universal phenomenon (e.g., Hocutt, Chakraborty, & Mowan, 1997; Maxham, 2001). This has prompted researchers to explore the boundary conditions under which the paradox is more or less likely to occur. One such potential moderator—the severity of the event—plays a role in both the service recovery and behavioral ethics literatures.

The severity of the service failure event has emerged as a contingency factor in the service recovery literature. Drawing on prospect theory (Kahneman & Tversky, 1979), Magnini et al. (2007) argued that severe service failures could irreparably harm an individual’s satisfaction with the organization. Prospect theory suggests individuals’ value functions are steeper (more pronounced) under conditions of loss than under conditions of gain. Therefore, the negative impact of the lost value represented by a service failure may outweigh the positive impact of the recovery attempt, even if that attempt is executed in a high quality way. Results confirmed their prediction that a recovery paradox is more likely to occur when the service failure is of low magnitude; event severity moderates the service recovery paradox.

Ethics scholars have also considered the moderating impact of the severity of an ethical failure event. Jones’s (1991) concept of moral intensity provides the best-known example. Jones (1991) proposed six factors that determine the moral intensity of an event: magnitude of consequences, social consensus, probability of effect, temporal immediacy, proximity, and concentration of effect. Of these six factors, event severity (in the form of magnitude of consequences) has consistently emerged as an important contingent influence on ethical decision making and behavior, in particular on whether the moral awareness of an actor is triggered, thus giving rise to a more morally-oriented decision process (Treviño et al., 2006).

In all, both the service recovery literature and the ethical decision making literature point to the severity of the failure event as a critical feature for understanding the impact of the failure on outcomes. Thus, following service recovery and moral intensity arguments, we predict the severity of the ethical failure will moderate the emergence of the ethical recovery paradox:

**Hypothesis 3.** The ethical recovery paradox will be less likely to emerge when the severity of ethical failure is high.

We explore these predictions in two studies. The first, a lab study, tests Hypotheses 1 and 2 by exploring the causal relationship between quality of organizational recovery effort and indicators of relationship repair at the individual, relational,
and systemic levels (employee evaluation of organizational satisfaction, POS, and organizational ethicality, respectively). The second, a field study, provides further evidence with respect to the ethical recovery paradox (Hypotheses 1 and 2) and examines whether severity of the ethical failure moderates the emergence of the ethical recovery paradox (Hypothesis 3).

Study 1

Methods

Participants
Participants were 118 undergraduate students from a large southeastern university in the U.S. Students were recruited from undergraduate business courses and received extra credit for their participation. Participants averaged 23.9 years old and 46.6% were female. Ethnicity was 5.1% Asian–American, 14.4% African–American/Black, 12.7% Hispanic, 3.4 Latino/a, 58.5% Caucasian/White, and 5.9% other. They averaged 5.4 years of work experience. Participants were randomly assigned to one of four conditions. An approximately equal number of participants were in each condition.

Procedure
Participants were recruited in two ways. Marketing majors were part of a Marketing Department subject pool. Students participated by attending sessions conducted in a behavioral laboratory and earned extra class credit for doing so. Upon arriving at the lab, they were randomly assigned to a computer (and condition). Management students were recruited from classes. Instructors informed students of the opportunity to receive extra credit and emailed them a link to the experiment. All participants were provided a link to the study, and when they clicked on the link, they were randomly assigned to an experimental condition. In each condition, participants read a scenario and then responded to a series of questions. T-tests demonstrated there were no significant differences between the two types of participants in terms of demographics or responses to the dependent variables.

Participants were randomly assigned to one of four conditions: No Ethical Failure, Ethical Failure Negative Response, Ethical Failure Slightly Positive Response, Ethical Failure Highly Positive Response. We created scenarios for each condition modeled after the fast food pizza franchise scenario used by Treviño and Victor (1992). In the interest of mundane realism, we chose the pizza delivery chain closest to the students’ campus (Domino’s) as the focus of the scenario. Students were asked to imagine they were employed at the local Domino’s store and to think of themselves as an employee there as they read the scenario and responded to questions that followed.

All scenarios contained the same core information. This information described the job, introduced the idea of a shared employee tip jar, and indicated the company had an established ethics code. The core scenario was the only information the participants in the No Ethical Failure condition received. In the remaining conditions, the scenarios described an ethical failure the participant had observed that involved (a) a new shift manager stealing tips from the shared tip jar three times, (b) the student reporting the situation to the general manager, and (c) the general manager’s response. The conditions differed only in the description of the general manager’s response, ranging from negative (brief, dismissive, and threatening) to slightly positive (somewhat more engaged and limitedly proactive), to highly positive (extensively engaged, concerned, and responsive, the loss restored, and a new procedure introduced to eliminate the problem in the future). The highly positive response reflects Hess et al.’s (2003) description of high quality recovery efforts that rectify the situation, amend processes to prevent future failure, and restore the loss experienced by the victim. (See Appendix for full scenarios.)

Prior to reading the scenario, students provided demographic information and indicated the extent of their familiarity with Domino’s. After reading the scenario, students responded to a series of questions that formed our dependent variables. The questions were blocked and the blocks were presented randomly.

Dependent variables
Participants responded to all questions by indicating their agreement on a 7-point Likert-type scale (1 = strongly disagree, 7 = strongly agree).

Individual recovery: Satisfaction with the organization. To assess satisfaction with the organization, we adapted Edwards and Rothbard’s (1999) three-item job satisfaction scale to focus on satisfaction with the organization. (“All in all, Domino’s is a great company to work for,” “In general, I am satisfied with Domino’s as a place to work,” and “Domino’s is a very enjoyable company to work for;” α = .96.)

Relational recovery: Perceived organizational support. We assessed POS with the three-item version of the survey of Perceptions of Organizational Support used by Eisenberger, Stinglhamber, Vandenberghe, Sucharski, and Rhoades (2002). Participants rated the extent to which they agreed with the following three statements: “The organization values my contribution to its well-being,” “The organization strongly considers my goals and values,” and “The organization really cares about my well-being” (α = .96).

Systemic recovery: Organizational ethicality. Three items developed for this study assessed the perceived ethicality of the organization: “Domino’s deals fairly with its employees,” “Domino’s practices good business values like honesty and respect,” “Domino’s sets a good example of ethical business behavior” (α = .91).

Results

Table 1 shows the means, standard deviations, and correlations among the study variables.

To examine the distinctiveness of the variables, we conducted confirmatory factor analyses (CFA). The measurement model consisted of three factors: organizational satisfaction, POS, and organizational ethicality. The results indicated the three-factor model provided a good fit of the data (χ²(24) = 34.9, n.s.; CFI = .99; GFI = .94; RMSEA = .06) (Hoyle & Panter, 1995; Hu & Bentler, 1999). We compared the three-factor model to four alternative models. (See Table 2.) The three-factor model had a significantly better fit than the alternative models.

To assess Hypothesis 1, that the quality of the organization’s ethical recovery is related to employee assessment of the extent of relationship repair at the individual, relational, and systemic dimensions, we performed a series of one-way ANOVAs between the ethical failure conditions (i.e., quality of response) and the
three dependent variables. The relationship between quality of response and each of the indicators of recovery was significant ($F(2,82) = 20.80$, $F(2,83) = 26.56$, $F(2,83) = 15.40$ for satisfaction, POS, and ethicality, respectively; $p < .001$ for all). This supports Hypothesis 1.

To test Hypothesis 2, that high quality ethical recovery attempts will result in more positive employee assessments of the organization than if no ethical failure had occurred, we began with the means of the No Ethical Failure condition as the baseline against which the other conditions could be compared. We then conducted planned comparisons of the means for the No Ethical Failure condition and the Very Positive Response condition. Consistent with the prediction, and indicative of an ethical recovery paradox, participants reported higher levels of satisfaction in the Very Positive Response condition than in the No Ethical Failure condition ($M = 5.30$ versus $4.63$; $p < .05$, one-tailed). Also consistent with the prediction, and indicative of an ethical recovery paradox, participants reported higher levels of POS in the Very Positive Response condition than in the No Ethical Failure condition ($Mean = 5.46$ versus $4.38$; $p < .05$, one-tailed). Although participants in the Very Positive Response condition rated the organization higher on organizational ethicality than in the No Ethical Failure condition, the difference was not significant ($Mean = 5.58$ versus $5.46$, n.s.).

We expected a positive relationship between the quality of response and participant reactions, and a significant difference between the No Ethical Failure condition and the Very Positive Response condition. However, we did not offer specific predictions about differences between the means for the other conditions. Consequently, we conducted post hoc comparisons of the means to investigate whether there were other significant differences between the other conditions. Table 3 shows the results of these analyses. Fig. 1 shows a plot of the means. The results indicate Poor Response led to the lowest level of evaluation across all three dependent variables. Further, consistent with predictions, only the Very Positive Response resulted in higher levels of evaluation than the No Ethical Failure condition. The Slightly Positive condition results in some recovery but is still significantly lower than the No Ethical Failure condition.

### Discussion

Study 1 provides support for both Hypothesis 1 and Hypothesis 2. The quality of the response provided to an ethical failure affected employee assessments of the quality of relationship with the organization at individual, relational, and systemic levels. Higher quality responses lead to greater satisfaction with the organization, greater perceptions of organizational support, and higher perceptions of organizational ethicality, but perhaps more important is the support indicated for the ethical recovery paradox. The results demonstrate very positive recovery efforts following an ethical failure led to higher levels of satisfaction with the organization and POS than those expressed by individuals for whom there was no ethical failure. Thus, a well-executed recovery resulted in better employee outcomes on these two dimensions than when no failure happened at all.

However, the ethical recovery paradox is found only for the individual and relational recovery dimensions. For the systemic dimension, a very positive recovery effort matched perceptions of organizational ethicality for the No Ethical Failure condition, but did not exceed the No Ethical Failure condition as it did for satisfaction and POS. We cannot be certain why the ethical recovery paradox did not emerge at this level, but Table 3 and Fig. 1 may offer a clue. As illustrated in Fig. 1, organizational ethicality ratings in the Very Positive Response condition were higher than those for organizational satisfaction or POS in the same condition. Thus, it does not appear that the null finding results from a lack of recovery with respect to employee perceptions of organizational ethicality. Rather, we see that organizational ethicality started at a much higher level than either satisfaction or POS did in the No Ethical Failure condition. As such, organizational ethicality may have been facing a ceiling effect that limited its chances of exceeding the No Ethical Failure mean by a significant amount. The No Ethical Failure scenario included information indicating the organization had a code of ethics, and that this code appeared to be successful in guiding employee behavior. Given the brief nature of the scenario, the ethical status of the organization may have been particularly salient to respondents, making it difficult for even a very positive response to exceed the No Ethical Failure perceptions. Of course, this rationale highlights one of the limitations of Study 1—the reliance on scenarios rather than actual experience. We address this limitation in Study 2.

Study 1 allows us to demonstrate the ethical recovery paradox in a controlled setting. It enables us to draw causal conclusions about

### Table 3

**Study 1: Dependent variable means.**

<table>
<thead>
<tr>
<th>Condition</th>
<th>Satisfaction with organization</th>
<th>POS</th>
<th>Organization ethicality</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Ethical Failure</td>
<td>4.63$^*$</td>
<td>4.38$^*$</td>
<td>5.46$^*$</td>
</tr>
<tr>
<td>Poor Response</td>
<td>2.93$^*$</td>
<td>2.74$^b$</td>
<td>3.46$^b$</td>
</tr>
<tr>
<td>Slightly Positive</td>
<td>3.81$^b$</td>
<td>3.56$^b$</td>
<td>4.02$^b$</td>
</tr>
<tr>
<td>Very Positive</td>
<td>5.30$^d$</td>
<td>5.46$^d$</td>
<td>5.58$^d$</td>
</tr>
</tbody>
</table>

* Means (within column) with different superscripts are significantly different at $p < .05$ based on Student–Newman–Keuls tests; differences for No Ethical Failure and Very Positive Response means based on planned comparisons.
the effect of strong and weak recovery efforts on employees. Yet, it is artificial. We asked students to assume the role of the employee and respond as they believe they would in the situation, rather than relying on individuals' personal work experiences. We crafted the scenarios to reflect a setting students could easily imagine, thus increasing the mundane realism of the study. However, scenarios can provide useful information about ethical phenomena such as these (Gino, Shu, & Bazerman, 2010; Paharia, Kassam, Greene, & Bazerman, 2009; Spicer, Dunfee, & Bailey, 2004; Treviño & Victor, 1992). Nonetheless, there are obvious limitations to this approach. Therefore, in Study 2 we examine the ethical recovery paradox in a field setting. Additionally, Study 2 allows us to investigate the moderating influence of severity of the unethical act on the ethical recovery paradox. Thus, in addition to Hypotheses 1 and 2, in the second study we also examine Hypothesis 3.

**Study 2**

**Methods**

**Participants and procedures**

Reporting of unethical behavior represents a relatively low base rate event. Therefore, our field study to test Hypotheses 1–3 began with a large survey sample representing 16 manufacturing and technology firms in the U.S. The Ethics Resource Center in Washington, DC conducted the survey of 27,750 employees (which of 3095 were unusable, due to missing data), leaving a sample of 24,655. The survey asked respondents about their experiences related to unethical behavior in the organization and their perceptions of the organization on a variety of other fronts (e.g., satisfaction with organization, POS, organizational ethicality).

Respondents reported an average age of 45 years. Twenty-three percent had a high school degree or less, 21% had at least 2 years of college, 34% had a bachelors degree, and 22% had completed some post-graduate work. Ethnicity was 4.7% Asian, 4.9% African-American/Black, 4.4% Hispanic/Latino, 0.4% Middle Eastern, 0.1% Native American, 83% Caucasian/White, and 1.5% other. Females represented 25% of respondents.

**Measures: Independent variable**

**Satisfaction with organizational recovery effort.** Following Ren and Gray (2009), we measured employee assessment of the quality of the organizational recovery effort by measuring employee satisfaction with the organization's response to their reporting of the ethical failure.

All participants were asked whether they had, in the past year, personally witnessed conduct they thought violated company ethical standards, policies, or the law, and 4461 responded that they had. These employees were asked whether they reported their observation of misconduct to management or to another appropriate person. This resulted in 2237 employees who had both witnessed and reported ethical failures. These employees were asked, “How satisfied were you with your company’s response to your report of misconduct?” This was our measure of satisfaction with the organizational recovery effort. Responses were recorded on a five-point Likert-type scale (1 = very dissatisfied, 5 = very satisfied) and therefore treated as a continuous variable.

Based on employee responses, we categorized employees into seven groups. Condition 1 includes employees who did not witness an unethical event (N = 20,194). Condition 2 includes employees who witnessed an unethical event, but did not report it (N = 2224). Condition 3 through Condition 7 includes employees who witnessed an unethical event and reported it. Condition 3 includes those who were very dissatisfied with the company’s response (recovery attempt) (N = 405). Condition 4 includes those who were dissatisfied with the company's response (recovery attempt) (N = 447). Condition 5 includes those who were neutral with respect to the company's response (recovery attempt) (N = 526). Condition 6 includes those who were satisfied with the company's response (recovery attempt) (N = 549). Finally, Condition 7 includes those who were very satisfied with the company's response (recovery attempt) (N = 310).

**Measures: Dependent variables**

**Individual recovery: Satisfaction with organization.** Due to survey length limitations, satisfaction with organization was measured with a single item: “Considering everything, I am satisfied with the company I work for.” Research demonstrates the acceptability of single item measures when assessing constructs like general job satisfaction (Wanous, Reichers, & Hudy, 1997). Each single-item measures have been utilized successfully in previous research (Greenberg & Barling, 1999; Morris, Lydka, & Fenton-O’Creevy, 1993; Spicer et al., 2004).

**Relational recovery: Perceived organizational support.** POS was also measured with a single item, “I feel valued as an employee of my company” which reflects Eisenberger’s focus on an employee feeling valued as an indicator of how supportive his or her organization is (Eisenberger et al., 1986; Rhoades & Eisenberger, 2002).

**Systemic recovery: Organizational ethicality.** Employee perceptions of organizational ethicality were measured with six items (x = .70) that capture an employee’s overall impression of the organization’s internal and external ethical practices, on 5-point Likert-type scales: (1) In your company’s daily operations how often is the value of honesty practiced? (2) In your company’s daily operations how often is the value of respect practiced? (3) Overall, the head of the company sets a good example of ethical business behavior. (4) Overall, my supervisor sets a good example of ethical business behavior. (5) Overall, my co-workers set a good example of ethical business behavior. (6) My company deals fairly with customers who receive its products and/or services. (Anchors for items 1 and 2: 1 = never; 5 = frequently. For items 3–6: 1 = strongly disagree; 5 = strongly agree.)

**Measures: Moderator of the ethical recovery paradox**

**Severity of ethical failure.** Employees who witnessed and reported an unethical event were then asked to identify the type of ethical failure they had seen. They selected from among nine categories: (1) sexual harassment, (2) giving or accepting bribes, kickbacks, or inappropriate gifts, (3) falsifying or misrepresenting financial records and reports, (4) lying to employees, customers, vendors, or the public, (5) withholding needed information from employees, customers, vendors, or the public, (6) misreporting actual time or hours worked, (7) stealing, theft, or related fraud, (8) abusive or intimidating behavior toward employees, and (9) discrimination on the basis of race, color, gender, age, or similar categories. To facilitate our analyses with respect to the severity of the unethical event witnessed and reported, we retained only those participants who had observed a single unethical act. (These are reflected in the Ns reported above.)

To obtain an independent assessment of the severity of these ethical failures, we posted an online Qualtrics survey, available to a national audience, which asked participants to assess the severity of each of the nine unethical acts on a 7-point scale. (“We are going to provide a list of actions that are often viewed as ethical violations. We would like to know what you think about the severity of the violation.” 1 = not severe at all; 7 = extremely severe.) We accepted 100 responses to the survey. Respondents reflected similar demographics to our main study sample. Average age was 38 years. Twenty percent had a high school degree or less, 20%...
had at least 2 years of college, 29% had a bachelor’s degree, and 31% had completed some post-graduate work. Ethnicity was 2% Asian, 2% African-American/Black, 4% Hispanic/Latino, 87% Caucasian/White, and 5% other. Females represented 34% of respondents. (By comparison, our main study sample average age of 45, 23% high school or less, 34% bachelor’s degree, 22% post-graduate, 83% Caucasian, and 25% female; see above for full details of main study sample).

Respondents rated each act on a 7-point Likert-type scale as to how severe they perceived each ethical violation to be (1 = not severe at all, 7 = extremely severe). In increasing order of severity, the mean ratings of the nine ethical violations were: Withholding needed information from employees, customers, vendors, or the public (5.61), misreporting actual time or hours worked (5.85), sexual harassment (5.97), giving or accepting bribes, kickbacks, or inappropriate gifts (6.00), abusive or intimidating behavior toward employees (6.01), lying to employees, customers, vendors, or the public (6.10), discrimination on the basis of race, color, gender, age, or similar categories (6.13), stealing, theft, or related fraud (6.53), falsifying or misrepresenting financial records and reports (6.61).

Controls. Previous research demonstrates that age, sex, experience, and education may play a role in making ethical judgments (Treviño et al., 2006). Thus, we controlled for each.

Results

Table 4 shows the means, standard deviations, and correlations among the study variables. We predicted in Hypothesis 1 that the quality of an organization’s ethical recovery attempt will be related to employee satisfaction with the organization, POS, and perceptions of organizational ethicality. Table 5 shows results of OLS regression analyses that test this hypothesis. Results indicate that employee satisfaction with the organization’s ethical recovery attempt was significantly related to satisfaction with organization, POS, and organization ethicality. These results support Hypothesis 1.

We predicted in Hypothesis 2 an ethical recovery paradox, that very high quality ethical recovery attempts will result in higher employee satisfaction, POS, and perceptions of organizational ethicality than if no ethical failure had occurred. To test this we performed a one-way analysis of variance (ANOVA) and, as in Study 1, we conducted planned comparisons for Condition 1 (no ethical failure witnessed) and Condition 7 (ethical failure witnessed, reported, and highly satisfied with response). The existence of an ethical recovery paradox would be revealed if employee perceptions of satisfaction with organization, POS, and organization ethicality were significantly higher in Condition 7 than in Condition 1. Consistent with the prediction, employees reported significantly higher satisfaction (Mean = 4.55 versus 4.22, p < .05), POS (Mean = 4.33 versus 4.06, p < .05), and ethicality (Mean = 4.61 versus 4.42, p < .05) in Condition 7 than in Condition 1. The field study results thus provide strong support for Hypothesis 2 and for the existence of an ethical recovery paradox across all three levels of outcomes.

As in Study 1, we also conducted post hoc analyses to examine differences between the other conditions. Table 6 reports results of these analyses. Fig. 2 illustrates these mean ratings of satisfaction with organization, POS, and ethicality of organization across the seven conditions identified above. In general, there are significant differences among the means for each condition. The exception is the means for employees who witnessed a failure but did not report it, and those who reported and received a dissatisfying response. For satisfaction with the organization and POS, these means are not significantly different from one another.

In Hypothesis 3 we predicted the ethical recovery paradox will be less likely to emerge when the severity of the ethical failure is high. To test Hypothesis 3, we examined whether differences existed among the Condition 7 employee perceptions, depending on the severity of the event they witnessed. If Hypothesis 3 is accurate, mean ratings of satisfaction with organization, POS, and organization ethicality should be higher among Condition 7 employees who witnessed less severe violations than those who witnessed more severe violations.

To test this hypothesis, we grouped Condition 7 employees into three severity categories (high, moderate, and low) based on a series of planned comparisons between the mean ratings of the severity of the nine ethical failures. We identified high-severity individuals as those who witnessed one of the two acts rated most severe: falsifying or misrepresenting financial records and reports; stealing, theft, or related fraud. Mean severity ratings for these two events were 6.61 and 5.85, respectively. These ratings were not significantly different from each other, and were significantly higher (p < .01) than the severity ratings of the other acts. We identified low-severity individuals as those who witnessed the two acts rated as least severe: withholding needed information; misreporting actual time or hours worked. Mean severity ratings for these two events were 5.61 and 5.85, respectively. These ratings were not significantly different from each other, and were significantly lower than all other severity ratings (p < .01). All other employees were classified into the moderate severity category. None of the severity ratings in this category were significantly different from each other.¹

¹ An alternative to this approach is a 2-way ANOVA examining both condition and severity. However, our data do not allow for this analysis, which requires a sufficient number of employees to have reported a specific unethical act and to have reported each level of satisfaction with the response. The data do not reflect this distribution of responses; when severity is fully crossed by condition, empty cells exist.
Table 5
Study 2: Regression results.

<table>
<thead>
<tr>
<th></th>
<th>Satisfaction with organization</th>
<th>POS</th>
<th>Organization ethicality</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(\beta) (s.e.)</td>
<td>Beta</td>
<td>(\beta) (s.e.)</td>
</tr>
<tr>
<td>Constant</td>
<td>2.29* (.11)</td>
<td>.00</td>
<td>2.66* (.13)</td>
</tr>
<tr>
<td>Age</td>
<td>0.04 (.03)</td>
<td>.00</td>
<td>.06* (.03)</td>
</tr>
<tr>
<td>Sex</td>
<td>0.08 (.04)</td>
<td>.40</td>
<td>0.15* (.05)</td>
</tr>
<tr>
<td>Tenure</td>
<td>.06* (.02)</td>
<td>.70</td>
<td>.02 (.02)</td>
</tr>
<tr>
<td>Education</td>
<td>.06* (.02)</td>
<td>.04</td>
<td>.06* (.02)</td>
</tr>
<tr>
<td>Satisfaction with recovery effort</td>
<td>.41* (.02)</td>
<td>.51</td>
<td>.28* (.02)</td>
</tr>
<tr>
<td>R-square</td>
<td>.27</td>
<td>.13</td>
<td>.39</td>
</tr>
</tbody>
</table>

Table 6
Study 2: Dependent variable means.

<table>
<thead>
<tr>
<th>Condition</th>
<th>Satisfaction with organization</th>
<th>POS</th>
<th>Organization ethicality</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No ethical failure witnessed</td>
<td>4.22*</td>
<td>4.06*</td>
<td>4.42*</td>
</tr>
<tr>
<td>2. Ethical failure witnessed, not reported</td>
<td>3.50*</td>
<td>3.36*</td>
<td>3.65*</td>
</tr>
<tr>
<td>3. Ethical failure witnessed, reported, and very dissatisfied with response</td>
<td>2.87*</td>
<td>3.11*</td>
<td>3.12*</td>
</tr>
<tr>
<td>4. Ethical failure witnessed, reported, and dissatisfied with response</td>
<td>3.45*</td>
<td>3.45*</td>
<td>3.71*</td>
</tr>
<tr>
<td>5. Ethical failure witnessed, reported, and neutral with response</td>
<td>3.83*</td>
<td>3.86*</td>
<td>3.98*</td>
</tr>
<tr>
<td>6. Ethical failure witnessed, reported, and satisfied with response</td>
<td>4.11*</td>
<td>3.95*</td>
<td>4.28*</td>
</tr>
<tr>
<td>7. Ethical failure witnessed, reported, and very satisfied with response</td>
<td>4.55*</td>
<td>4.33*</td>
<td>4.61*</td>
</tr>
</tbody>
</table>

\* Means (within column) with different superscripts are significantly different at \(p < .05\) based on Student–Neuman–Keuls tests; differences for No Ethical Failure and Very Positive Response means based on planned comparisons.

Fig. 2. Study 2: Means for DVs across conditions.

We then conducted a one-way ANOVA to assess whether severity of the ethical failure witnessed influenced the ratings of Condition 7 employees. Level of severity did not influence the ratings provided by Condition 7 employees (those very satisfied with organizational response) for any of the three outcome variables \(F = 1.57\) (n.s.), 0.04 (n.s.), 0.91 (n.s.) for organizational satisfaction, POS, and organizational ethicality, respectively). None of the three outcome variables was dependent on severity of ethical violation. Table 7 reports the resulting mean ratings of the three outcomes across the three levels of severity. No significant differences existed between mean ratings for any of the outcomes. Thus, the ethical recovery paradox does not appear to be contingent on severity of the ethical act, and Hypothesis 3 is not supported.

Discussion

Study 2 examined our three hypotheses in a field setting. The results support Hypotheses 1 and 2. The quality of organizational response to an ethical failure was significantly related to recovery on individual, relational, and systemic dimensions. Further, the results provided strong support for an ethical recovery paradox. Employees who witness an ethical failure, report the failure, and are very satisfied with the response to their report are more satisfied with their organization, feel more supported by their organization, and perceive their organization as more ethical than employees who did not witness an ethical failure. Thus, organizations that do an exceptional job at responding to ethical failures are viewed even more favorably by employees who witnessed wrongdoings than organizations that had not stumbled ethically. Additionally, contrary to the service recovery literature and Hypothesis 3, the results demonstrate severity of the ethical failure did not moderate the ethical recovery paradox. Regardless of severity, exceptional ethical recovery corresponds to equally positive employee reactions.

Beyond hypothesis tests, the post hoc results reveal consistent and interesting patterns of employee reactions, and these patterns are consistent with the expectancy disconfirmation paradigm explanations presented above for the emergence of a recovery paradox. Although our data cannot speak to the specific processes the disconfirmation paradigm suggests are at work (e.g., ethical expectations, failure expectations, and recovery expectations), these post hoc results are nonetheless revealing.

First, observing unethical activity but not reporting it (Condition 2) produced significant declines in employee perceptions of satisfaction with organization, POS, and organization ethicality. This is consistent with the expectancy disconfirmation paradigm that a two-stage process by which a recovery paradox might emerge. This decline in employee assessment of the organization following the failure reflects the initial disconfirmation event, in which the gap between failure expectations and (in this case) ethical expectations results in less positive employee assessments of the organization.

After the employee reports the failure and anticipates some recovery effort on the part of the organization, the expectancy disconfirmation paradigm posits that a second stage, the recovery disconfirmation process, may begin. Our post hoc results are also consistent with this explanation. Reporting unethical activity but being very dissatisfied with the organizational response (Condition 3) produced even lower levels of outcomes than observing the ethical failure without reporting. This is consistent with a second
negative disconfirmation event occurring and overshadowing the initial disconfirmation process, as employees experience a disconnect between their recovery expectations and actual firm recovery performance.

Beyond Condition 3, improvements in the quality of organizational response were related to more favorable impressions of satisfaction, POS, and ethicality. Again, this is consistent with expectancy disconfirmation paradigm predictions of a second (recovery disconfirmation) event, in which a smaller gap between recovery expectations and actual recovery performance will result in a more positive employee evaluation of the organization. As actual recovery performance approaches recovery expectations—perhaps eventually exceeding those expectations—the recovery disconfirmation process may prevail over the initial disconfirmation process, resulting in more positive evaluations than existed to begin with. This occurred in our study and overall, the two-stage process proposed by the expectancy disconfirmation paradigm is consistent with the pattern of our results, including the emergence of an ethical recovery paradox.

It should be noted that recovery efforts of low or moderate quality (Conditions 4 and 5) and even satisfactory quality (Condition 6) still resulted in below-baseline (Condition 1: No ethical failure witnessed) levels of employee reactions. Although satisfactory responses to ethical failures result in significantly higher evaluations than in Conditions 3–5, they still are lower than the reactions of employees who did not observe an ethical failure. Only employees receiving a very satisfactory response are more satisfied with the organization, report higher levels of POS, and perceive the organization to be more ethical than employees who saw no ethical failures at all.

The lack of effect for our hypothesized severity moderator deserves comment. Contrary to the results of the service failure recovery literature, our results suggest severity of the failure event is not a boundary condition for the emergence of a recovery paradox. Several possible explanations may account for this. First, we may not have specified the functional form of the moderation accurately. Rather than a straightforward moderating effect, a more complex “inverted-U” relationship may be at work. For very minor violations no recovery may be necessary, and for very severe violations, no recovery may be possible.

Second, the nature of the relationship between employees and their organizations (versus customers and organizations) may explain the differential findings. Although customers do develop ongoing relationships with firms, these relationships may be less multi-faceted than that of an employee and his or her organization. Thus, high severity failures on a foundational aspect of the relationship for a consumer (e.g., protection against identity theft) may be enough to permanently fracture the relationship. In contrast, although ethical failures may shake an employee’s confidence in his or her organization, other facets of the relationship may continue to bind the employee to the firm.

Finally, the nine categories of ethical failures examined in Study 2 showed limited variation, thereby providing a potential explanation for failure to detect the moderating effect. However, all nine categories reflect relatively severe failures, so if our moderating effect prediction (that the recovery paradox would not emerge in high-severity conditions) is correct, then we would not have been able to detect an ethical recovery paradox at all, because it would not have been present among the relatively high-severity failures contained in our study.

Our Study 2 sample has a number of strong features. It is composed of real employees with ongoing organizational relationships. Further, it is sufficiently large to allow a fine-grained analysis of actual ethical failures at work, organizational recovery efforts, and employee reactions to both. This is critical, for as Gillespie and Dietz (2009) note, field samples capable of exploring organizational repair process are especially difficult to obtain.

Despite these strengths, there are limitations as well. Although assessments of ethical failure severity came from a separate sample, the field data in Study 2 relies on survey data that is cross-sectional and from a single respondent, and this raises the potential for common method bias. Additionally, we relied on single-item measures for satisfaction and POS. Although multi-item measures would have been preferable, survey length required us to make this trade-off. Our concern here is mitigated by two factors. First, research suggests single-item measures can be both reliable and valid, and such single-item measures have been utilized successfully in previous research (Greenberg & Barling, 1999; Morris, Lydka, & Fenton-O’Creevy, 1993; Spicer et al., 2004; Wanous et al., 1997). Second, a consistent pattern of relationships emerged between the multi-item measures used in Study 1 and the single item measures used in Study 2, and the multi-item outcome measures in Study 2 (organizational ethicality) and the single-item outcome measures in Study 2 (satisfaction and POS).

In all, Study 2 provides strong support for a relationship between the quality of organizational response to an ethical failure and employee reactions on individual, relational, and systemic dimensions. More importantly, Study 2 provides strong evidence for the ethical recovery paradox. As with Study 1, Study 2 suggests organizations can not only recover from ethical failure, but highly effective recovery efforts can enhance their employee relationships.

General discussion

The purpose of this research was to provide a clearer understanding of whether—and to what extent—organizations can recover from ethical failures. We explored whether organizations that engage in high quality recovery procedures can undo the damage that occurs in how they are viewed by employees when ethical failures happen. Specifically, we explored the extent to which employees’ assessments of their organization are harmed when unethical activity is observed, and the extent to which that harm can be mitigated by effective responses.

Our results suggest ethical recovery is indeed possible. Our results also point to the existence of an ethical recovery paradox; organizations that respond to ethical failures in a highly effective way may trigger even more positive employee reactions than if no ethical failure had occurred at all. Building on the service recovery paradox literature, we predicted the emergence of a parallel ethical recovery paradox, and explored its occurrence in two settings. A laboratory study allowed us to control the quality of the ethical recovery attempt and explore its causal impact on “employee” assessments of the organization. A field study of the repair performance.
process allowed us to examine the relationship between ethical violations, recovery efforts, and employee reactions with real employees in their real jobs.

The results of the two studies were very consistent. Both demonstrated clear evidence of an ethical recovery paradox and both demonstrated the detrimental effect of poorly executed recovery efforts (a significant decline in evaluations of the organization), as well as the insufficiency of less-than-outstanding recovery efforts in returning evaluations to pre-failure or no-failure levels. Consistent with our predictions, the effects of this ethical recovery paradox are felt more broadly than those that have emerged in the service recovery literature. Consistent with the service recovery literature, the ethical recovery paradox applies to individual perceptions of the organization (satisfaction). But it appears to be considerably more potent as well, extending to both relational (POS) and systemic (organization ethics) levels. Although each of the studies has limitations, the experimental control of Study 1 combined with the “real world” richness of Study 2 provide additional confidence that the relationships revealed here are both real and causally related.

Our studies have several implications for research on behavioral ethics. First, they explore an aspect of behavioral ethics—recovering from ethical failure—that has received no attention in the literature. Although studies have explored causes of ethical failure (e.g., du Plessis, 2008; Jackling, Cooper, Leung, & Dellaportas, 2007; Ludwig & Longenecker, 1993), we are aware of no studies that examine the recovery process and the impact that recovery process has on employees. Despite a firm’s best efforts, ethical failures will occur. Understanding the impact of these failures on employees—and how to recover from them—is critical. Second, our work integrates the behavioral ethics literature with the relationship repair literature. Perhaps more importantly, in doing so it extends the relationship repair framework from individual-level concerns to include both relational and systemic (organization-level) aspects as well. As a result, we provide a foundation for considering a broader array of multilevel perspectives on ethical failure and recovery than has been available with current theorizing.

Third, we explore the possibility of an ethical recovery paradox. Our results suggest that exemplary recovery efforts on the part of the organization may actually enhance the employee-organization relationship, elevating it to a more positive level than if no ethical failure had occurred. This result raises a host of possibilities for considering additional implications of ethical repair, those even further “downstream” from the unethical event. Finally, our paper contributes to the behavioral ethics literature by integrating perspectives from both the marketing and relationship repair literatures to the behavioral ethics literature. Such integrations provide a broader perspective for considering behavioral ethics phenomena which are, by nature, multidisciplinary.

Our research provides a sound foundation for future research. Our studies suggest ethical recovery is possible and beneficial. Yet we know little about the attributes of effective recovery. In the experimental study, our highest quality response was broad-based, demonstrating organizational responsiveness, repairation, and system repair. We do not know if all of these aspects are necessary to execute a successful recovery. Similarly, in the field study, we do not know what led employees to perceive the response as being very satisfying or dissatisfying. For example, our data indicate that approximately half of those who witnessed ethical failures in Study 2 did not report them. We know little about the relative importance of individual factors (e.g., failure expectations or recovery expectations) and situational factors (e.g., fear of retaliation or lack of efficacy beliefs) that may drive that decision. In all, research in areas such as justice, forgiveness, and trust repair may provide a foundation for exploring the decision to report and the effectiveness of recovery efforts.

Future research should also explore other boundary conditions for the ethical recovery paradox. The literature points to several other potential moderators that may warrant attention. For example, the service recovery literature suggests controllability of the failure may moderate the recovery paradox. Customers are less willing to pardon failures that are more clearly under the control of the organization (Folkes, 1984; Maxham & Netemeyer, 2002). Relatedly, this literature also points to prior failures as another moderator of the recovery paradox. An initial failure may be attributed to factors beyond the organization’s control, but a second failure (and beyond) is likely to be attributed to chronic organizational problems, making successful recovery less likely (Maxham & Netemeyer, 2002). Thus, the prospect of failing intentionally, with the aim of enhancing satisfaction through an exemplary recovery effort, is not a sustainable strategy.

In addition to controllability, the trust repair literature identifies locus of causality (whether the cause of the act was generated by the violator or some other source) and stability (whether the cause of the failure is temporary or more permanent) as potential moderators (Tomlinson & Mayer, 2009). Violations resulting from external and temporary causes are more likely to exhibit the recovery paradox. Finally, the ethical decision making literature has identified several factors theorized to influence how individuals respond to unethical events in their environment. Above, we explored severity of the failure (Jones, 1991) as a potential moderator. Other factors noted by Jones, the degree of social consensus that exists with respect to the unethicality of an act, and the proximity of the event, have been shown to shape ethical decision making and behavior as well (Marshall & Dewe, 1997; Treviño et al., 2006). Each of these represents a potentially important boundary condition for the recovery paradox process.

Perhaps the most pressing issue to be addressed in future work is to create a deeper understanding of the processes by which ethical failure recovery, and the failure recovery paradox, unfolds. Our results are consistent with explanations offered based on the expectancy disconfirmation paradigm (Oliver, 1980, 1997), but we did not explicitly examine the expectancy disconfirmation paradigm process. A deep exploration of that process would require measures of ethical expectations, failure expectations, and recovery expectations, in addition to those measures present in our studies.

Similarly, the conceptual development portion of our paper described both supervisors and coworkers as important “relational others” in the organization, whose unethical actions may be viewed by employees as representative of organizational unethicality. It may be that different processes unfold when the unethical activity emanates from these different sources, and more work is needed to conceptualize and test how those processes might differ. It may be possible to look to the literatures on trust repair and organizational injustice remedies for insight. For example, Kim et al. (2004) showed that trust restoration depends on achieving an appropriate fit between the type of trust violation that has occurred and the type of repair action taken. Likewise, Reb et al. (2006) found that effective organizational remedies for acts of procedural and interactional injustice depend on a match between type of injustice perceived and type of remedy offered. Thus, it may be the case that different sources of unethical actions require different organizational responses for ethical recovery to occur.

Scholars have explored other processes by which failure recovery may emerge. For example, beyond the expectancy disconfirmation paradigm, service recovery scholars have looked to script theory (Bateson, 2002) for additional insights regarding process. From a script theory perspective, service failures represent deviations from service levels that have come to be expected as part of the regular consumer–organization relationship (i.e., deviations from scripts) and are therefore especially salient to the consumer.
Satisfaction with the recovery effort itself becomes a more potent determinant of overall satisfaction than pre-event attitudes (Bitner, Booms, & Tetreault, 1990). Other service failure scholars have embraced Morgan and Hunt’s (1994) commitment-trust theory of relationship marketing. This perspective views an outstanding service recovery effort as an opportunity to enhance consumer attitudes through its impact on the level of trust that characterizes the relationship between the consumer and the organization (Tax et al., 1998).

Alternatively, trust repair scholars have looked to causal attribution theory (Weiner, 1986) for an explanation of successful recovery efforts. A causal attribution theory approach to relationship repair may represent a more intricate perspective on understanding the recovery process. Tomlinson and Mayer (2009), for example, argue such an approach not only recognizes the complex cognitive processes involved in making failure attributions, but also recognizes the role of social accounts (e.g., apology, denial), time, and emotion in the repair and recovery process. In all, the issue of relationship repair and recovery is one that has fascinated scholars from a variety of domains. The behavioral ethics literature could benefit from a deeper exploration of the causal processes that might be relevant to ethical recovery.

Our research also has implications for practitioners. First, it highlights the importance of preparing for and responding to ethical failures. In the last two decades, organizations have invested substantial time, energy, and resources in developing systems to enhance organizational ethics. Much of this effort has been focused on building ethical cultures and climates, including codes of ethics. Certainly these efforts are important, but our research suggests organizations should also ensure systems, structures, processes, controls, and policies can be in place to stage a successful recovery in the event an ethical failure happens. Neglecting to do so may lead to even greater organizational harm. For example, evidence shows when employees witness wrongdoing in the organization, they typically turn to a trusted source in the organization. Among employees of Fortune 500 firms, 61% turn to their supervisor first, 21% to a higher level of management, and 11% to a company hotline. Just 1% make their first report to an outside party (e.g., government), but if the employee makes a second report, the rate of external reporting is 17 times greater! And the most common reason for reporting externally is dissatisfaction with the company’s initial internal response (Ethics Resource Center, 2012).

Second, it is useful for organizations to note that employees who witness an ethical failure, but do not report it, evaluate the organization as negatively as (or more negatively than) employees who report and are dissatisfied with the organization’s response. Our research suggests the reporting of an ethical failure is an opportunity for the organization to enhance its relationship with employees. Thus, the “witnessed, but did not report” employees (Condition 2) reflect a missed opportunity. Research indicates these individuals avoid reporting ethical failures because they do not think action will be taken or because they fear reprisal (Ethics Resource Center, 2011b). This finding highlights the relationship between ethical culture and recovery. In order for organizations to have the opportunity to engage in ethical recovery, the ethical culture must support employees’ willingness to report. Further, once employees report ethical failures, effective ethical recovery is likely to encourage employees to engage in further reporting, thereby supporting an effective ethical culture.

Conclusion

This study extends existing literature by integrating behavioral ethical research, service recovery research, and relationship repair research to address an issue that has thus far been largely ignored in the literature: Is it possible for organizations to recover from ethical failures, and if so, how do ethical recovery efforts influence employees’ relationship with their organization? Our results suggest ethical failures provide an opportunity for organizations to enhance their relationship with their employees. Yet, this research also demonstrates the pitfalls of less-than-exemplary efforts. Although it is possible for organizations to benefit from ethical failure, these benefits only accrue from truly exemplary recovery efforts.

Acknowledgments

We are thankful for the support of the BB&T Program in Business Ethics at the University of Central Florida and the Gordon J. Barnett Memorial Foundation in conducting this research.

Appendix: Study 1 scenarios

No ethical failure

Domino’s main focus is pizza, but it also sells a variety of Italian-themed food including pasta, salads, and sandwiches. Beginning in 1967 with a single store in Michigan, Domino’s is now the second-largest pizza chain in the United States, with nearly 10,000 stores located in all 50 states and more than 70 countries.

Now, we’d like you to imagine that you are working part time at the Domino’s Pizza near campus (just across [local street name here] from campus). So for the rest of this exercise, think of yourself working at this Domino’s.

This Domino’s store employs about 15 [university name here] students. You and the other students have gotten to know each other quite well and enjoy working together. You have several months of experience in this store, so you’ve had the chance to do a variety of jobs, including taking orders, preparing pizzas, and running the cash register when customers stop in the store to pick up their orders. Overall, the job is not perfect, but you have come to think of it as pretty good, especially when compared to what you hear from your friends about the jobs they have held.

Like many take-out restaurants, your Domino’s has a tip jar near the cash register. When customers pick up their orders, they often place tips in this jar. Company rules say these tips are to be shared equally among employees at the end of each shift. As part of Domino’s established ethics code, all employees are “on their honor” to follow company rules and procedures. Employees also agree to take responsibility for reporting any violations they observe. Therefore, even though the tip jar is not secure, employees have always felt comfortable with the current honor system for collecting tips and distributing them at the end of the shift, because of the ethics code.

Ethical failure

The general manager of your store recently hired a new shift manager named Chris, for the shift you most often work. Over the past two weeks, you have noticed Chris slipping money from the tip jar into his pocket when he thought no one was looking. You have now seen this happen twice, but because you value your job, you have not confronted him with what you have seen.

However, the third time you see Chris dip into the tip jar, you decide to notify the general manager. The next time the general manager is in the store, you approach him while no one else is around and tell him what you have seen, how upset you are about this violation of company rules, and that you and your coworkers are unfairly being denied these tips, which you depend on.
Poor response

The general manager responds immediately. He says, “Look, I don’t know what your problem is. And I don’t know what you think you saw. But Chris is a great addition to this store and we don’t need people like you spreading rumors about him. I suggest you keep your mouth shut and do your job. If you can’t do that, it’s probably time to think about other employment options.”

Slightly positive response

The general manager thinks for a second and then says, “I’m sure you realize that’s a pretty tough charge. I’m going to have to think about this a little before I decide how to handle it.” Over the next few days, the general manager is in the store several times, but does not talk to you about the situation. The third time you see him, you discreetly ask him if he has made any decisions. He says, “Yes, I meant to talk to you about this. I had a talk with Chris about it. Of course, I can’t tell you exactly what he said, but he had an explanation and his position is this was all just a misunderstanding. I think for now that’s about all I can do. Hopefully, talking to him directly will take care of it. But if not, I hope you will feel like you can come talk to me again.”

Very positive response

The general manager stops what he is doing and gets a very thoughtful look on his face. After a few moments he says, “This is a very serious situation. Give me a couple of days to look into it, okay?” Two days later the general manager is in the store during your shift and asks you to come into his office. He says, “I’ve spoken with Chris about this. He claimed it was all simply a misunderstanding. But we can’t have misunderstandings about things like this. Those tips are for you guys, not for management. You depend on them, and I understand that. So here is what we are doing. First, when I spoke with Chris, I let him know this was a very serious issue and this type of behavior isn’t acceptable. I believe the message was delivered and I don’t expect the issue to arise again. Second, I will review every tip jar page for the next few days, along with all of the shift managers to clarify exactly what our expectations are on these issues. So Chris—and all of the shift managers—understand how seriously we take this, and that any similar violation in the future will result in the shift manager being fired immediately. Third, I have checked the records for final tip distributions over the past month and have identified seven shifts where overall tips were much smaller than they should have been, based on sales and previous averages. So we are going to distribute “bonuses” to all employees who worked those shifts to make up for that. They will be small, but that’s not the point. We need to make this right. Finally, we are going to implement a new system for managing tips that come in during a shift. Rather than the simple jar at the register, I’ve purchased a commercial tip jar that is easy and entertaining for customers to use. It even plays a jingle and thanks the customer when a tip is inserted! But it is also secure, and must be turned over and unlocked for tips to be removed. It would be hard to do that during a shift without being noticed, so it should ensure all tips are accounted for at the end of the shift.”

References


