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THE IMPACT OF CORPORATE CORRUPTION AND WHISTLEBLOWING ON  
PERCEIVED, REPUTATION, CONSUMER BEHAVIOR AND PROSPECTIVE  
EMPLOYMENT

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## **Abstract**

The rising number of corporate scandals denotes the importance of examining wrongdoing, specifically, corruption. To address this issue, whistleblowing arises as a potential solution by denouncing ethical misconduct in organizations. However, its controversial role highlights the need to further study this topic. Using a sample of 203 participants, the present study allows us to (1) understand three complementary perspectives of external stakeholders; (2) have a higher control over scenarios through an experimental design; (3) compare Millennials with previous generations (Gen X and Baby Boomers). In conclusion, we aim to clarify the role of whistleblowing by studying its outcomes.

**Keywords:** business ethics, corruption, whistleblowing, external stakeholders

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## **Introduction**

Today, there is a growing recognition of the importance of business ethics. Empirical evidence from studies increasingly supports the relevance of ethics in corporations. On the one hand, ethics, frequently operationalized by Corporate Social Responsibility, have been shown to have a positive impact on financial performance, supporting the belief that ‘Good Ethics is Good Business’ for companies, consumers and, ultimately, society (Van Beurden & Gössling, 2008). Additionally, nurturing ethical virtues also benefits internal stakeholders, such as employees, by decreasing turnover and encourage managers to stay in organizations (Kangas et al., 2016). Conversely, corporate misconduct and unethical practices have been shown to damage the organizations’ reputation and potentially impact company’s performance (Miller et al., 2018). Reputation influences how consumers perceive companies, thus it is one of the major elements to be considered by corporations. For instance, consumers’ negative moral emotional responses to corporate misconduct impacts word of mouth negatively and may also cause disapproval toward the corporation (Grappi et al., 2013). Moreover, misconduct leads to negative consequences regarding consumer purchase and repurchase, which ultimately affect a company’s financial situation (Huber et al., 2010).

Even though there is an increasing awareness regarding business ethics, reports of ethical misconduct amongst managers and employees are widespread. Today’s newspapers headlines are frequently filled with corporate scandals (e.g. Volkswagen; Alphabet and Facebook; Samsung). Thus, this reality denotes a challenge: the apparent clash between business and ethics across every sector. Amongst these reports, corruption arises as one of the biggest ethical challenges that is yet to be properly addressed. Zuckerman (2006) expressed a troublesome concern regarding the attitude of the public (external stakeholders) towards corruption, namely, its broad acceptance within society. Additionally, he suggests that despite media attention towards corruption, the public is so accustomed to hearing about these scandals that their

attention towards the problem decreases. The endurance of corruption entails costs for companies by increasing the expense of doing business, diverting funds and causing financial crises (Zyglidopoulos et al., 2017).

To address ethical challenges, the whistleblower emerges as an important protagonist. His actions define the ethical boundaries of businesses by denouncing the wrongdoing in organizations (Andrade, 2015). Thus, whistleblowers' contribution is essential to maintain the organizations' integrity and protect shareholders interests (Near & Miceli, 1985). Yet, the conflicting reactions towards whistleblowing – either admiration or disdain – denote the controversial role of whistleblowing. Furthermore, the lack of *positive whistleblowing* examples and the lack of effective legislation to protect whistleblowers may be contributing to the endurance of corruption in Europe (Transparency International, 2015). Despite the growing investigation on business ethics, further insights regarding this issue are still needed (e.g. Ashforth et al., 2008; Culiberg & Mihelič, 2017; Greve et al., 2010).

This study adds to the current investigation regarding business ethics by focusing on the interplay between these two ethical challenges: corruption and whistleblowing. First, it expands our view regarding these two subjects through a more comprehensive perspective of how external stakeholders react to both ethical challenges. Research so far has focused mostly on the consumer perspective (e.g. Huber et al., 2010). Our study goes beyond the Consumer Behavior perspective and also adds the Perceived Reputation and Prospective Employment, which are essential dimensions for any organization. **Perceived Reputation** is a core element for any company. The perceptions regarding the organization and its leadership affect how people see the company and behave towards it. Correspondingly, it may also affect **Consumer Behavior** (e.g. purchase intention). Since a company's main purpose is to offer services and/or sell products, this dimension is essential to guarantee economic stability. Last but not least, companies rely on its employees to remain active and talent to innovate so there is a frequent

need to recruit new people. Accordingly, it is important to assess the impact on **Prospective Employment**.

Second, given the controversial role of whistleblowing (see Culiberg & Mihelič, 2017), this study proposes to further examine its role and consequences through a controlled experiment. The experimental design allows us to isolate conditions to better understand the effects of corruption and whistleblowing on the perceptions of the external stakeholders concerning: **Perceived Reputation** (trust and consumer perceived ethicality on organization and leadership), **Consumer Behavior** (purchase intention and boycott intention), **Interest of Prospective Employees** (general attractiveness, intention to pursue and prestige).

Third, this study also contributes to the current research by examining Millennials perceptions regarding corruption and whistleblowing. Millennials will represent three-quarters of the global workforce by 2025 (EYGM, 2015). Hence, this generation comprises the next generation of managers and leaders of our society. Moreover, the Millennial generation seems to be the most suspicious of companies' ethical motivations and actions (Fu, 2017). Consequently, it becomes increasingly relevant to understand Millennials perceptions regarding companies' role in society and their perceptions regarding corporate misconduct, which may ultimately promote ethical behavior or, conversely, lead to unethical behavior in the future (Weber, 2017).

## **The Role of Whistleblowing in Corruption**

Corruption is briefly defined by Ashforth et al. (2008) as the “the illicit use of one’s position of power for perceived personal or collective gain” (p. 671). Likewise, Transparency International (2017), describes corruption as the exploitation of power for private gain. Past corporate scandals involving corruption have demonstrated the ultimate organizational costs of this phenomenon, namely, bankruptcy (e.g. Enron scandal). Corruption has also been shown to

have other economic costs, namely an impact on development and economic growth which, in turn, affect businesses (Wilhelm, 2002). Even though the consequences of corruption are known to corporations, employees and managers, corruption endures in organizations, posing as one of one of the biggest ethical challenges faced by companies. Nevertheless, it is clear that fighting corruption creates a “win-win situation” that ultimately benefits society and businesses (Hess & Dunfee, 2003 p.271). While ethics may not frequently be perceived as a relevant subject for management studies, the knowledge of business ethics is essential because it helps to fight corruption, maintain trust and incentivize innovation (Wilhelm, 2002). Ultimately, it contributes to guarantee the sustainable economic development of organizations.

Conclusively, organizational wrongdoing, especially corruption, has significant consequences for companies and multiple stakeholders. Its outcomes range from financial losses to reputation costs, since higher visibility and unsolicited attention may lead to more negative perceptions among stakeholders and finally, lower commitment which in turn increases turnover rates (Near & Miceli, 2016). In the midst of this environment, whistleblowing arises as a potential solution to tackle misconduct in organizations.

Near & Miceli (1985) describe the whistleblower as a current or former organization member who, even though lacking the authority to prevent wrongdoing, delivers a warning to the upper management or the public concerning a wrongdoing created or covered by the organization. The alleged wrongdoing can be driven either by an action that the whistleblower considers illegitimate or immoral, or an action that diverges from the values stated by the organization (Near & Miceli, 1985). Additionally, the phenomenon can be studied in a variety of perspectives, e.g. it may investigate the actors that commit wrongdoing, the whistleblower that denounces it or, the recipients of the report of wrongdoing (Near & Miceli, 1996). To better understand the phenomenon, research has relied on several theories. According to the perspective of power relations whistleblowing is described as an influence process where the

whistleblower seeks to stop the misconduct by exerting power over the organization or the members that perpetrated wrongdoing (Near et al., 1993). On the other hand, Justice Theory is used to explain the responses of one party to the decision-making behavior. In this case, the reactions of the whistleblower and the receiver of the whistleblowing actions (Near et al., 1993).

Wrongdoing has an undeniable impact on organizations and stakeholders hence, it is a socially relevant issue. Miceli et al., (2009) highlight the role of whistleblowing as a mechanism to minimize wrongdoing that should be considered a priority for any organization. Whistleblowing improves ethical decision making in organizations (Ewing, 1983). Moreover, Near & Miceli, (1985) discovered that whistleblowing is essential to maintain the organization's integrity and to protect shareholders interests. As a result, it has the potential to add valuable information that has the capacity to improve organizational effectiveness (Near & Miceli, 1985). By denouncing wrongdoing, whistleblowers can clearly contribute to the organization and spare costs by helping the company self-correct wrongful practices (Miceli et al., 2009). Internal whistleblowing is considered especially beneficial for companies because it calls to the attention of managers unethical misconduct and, consequently, contributes to reduce financial costs, potential turnover and reputation damages (Near & Miceli, 2016).

Whistleblowing can nonetheless be confused with corporate disloyalty and, subsequently, hinder its benefits. Individuals themselves have barriers that may limit whistleblowing behavior: they may feel uncomfortable in undermining managerial authority, they may fear damaging relationships, injuring trust, being disloyal and hurting the organization's reputation (Miceli et al., 2009). In many cases, whistleblowing is ineffective and does not generate benefits. Instead, the whistleblower may suffer retaliation and harm many (Near & Miceli, 1995). Amongst these negative elements, one of the major challenges associated with whistleblowing concerns the perception of loyalty towards an organization. The notion of rational loyalty reflects an individual's allegiance towards the values, mission statement and

codes of conduct of an organization, which does not necessarily comprise their loyalty towards top management and employees of an organization (Vandekerckhove & Commers, 2002). Hence, if an action violates the values and statements of an organization that were communicated to the stakeholders of an organization, the whistleblower loyalty is intact, and his actions are justified.

Conclusively, the controversial role of whistleblowing may generate challenges both for the whistleblower and the organization. As it was explained, responses to whistleblowing vary and even though companies and institutions are striving to protect whistleblowers, the success of this endeavor is lacking effectiveness (Miceli et al., 2009).

## **Reactions to Corruption and Whistleblowing**

The ethical challenges we have investigated above have effects on multiple stakeholders. While previous research has mostly focused on the consumer perspective (e.g. Huber et al., 2010), the present work comprises two more dimensions that are considered relevant for organizations. Foremost, the Perceived Reputation is a major element of differentiation between rival companies which translates the general opinion of the stakeholders, based on the organization's past behavior (Hörner, 2002). Additionally, the consumers are major participants in the business process and their decisions always involve some ethical judgement, hence, they must be taken into account in order to fully understand business ethics (Vittel, 2003). Finally, there are several organizational attractiveness measures (e.g. general attractiveness, prestige) that impact organization pursuit, and, consequently, the capacity to attract employees (Highhouse et al., 2003). Therefore, reactions at this level must also be considered.

### ***Impact on Perceived Reputation***

Empirical research has demonstrated that the ethical perception of consumers regarding a company is influenced by the positive and negative CSR-related information (Brunk & de Boer, 2018). Moreover, the influence of corporate misconduct on perceptions has long-lasting impacts on a company's overall reputation and affects its competitiveness capabilities (Brunk, 2012). **Consumer Perceived Ethicality** (CPE) is a construct that represents "consumers' overall subjective impression of ethicality, meaning how he/she perceives the moral disposition of a company/brand, which by nature may not accurately reflect actual company behavior" (Brunk, 2012 p. 552). This notion translates consumer's perception of a company's morality that is, its subjective moral judgement of right/wrong or good/bad (Brunk & Blümelhuber, 2011). Achieving positive perceived ethicality may be a challenging endeavor for companies that have previously engaged in some kind of misconduct (Brunk & Blümelhuber, 2011). Thus, companies must be attentive to how consumers perceived them, especially, how they perceive their ethics and strive to maintain a positive reputation. The ethical perceptions of consumers impact their evaluations of the company and also their attitude towards the organization, e.g. it may consequently impact their purchase behavior (Creyer, 1997).

In organizational studies **trust** is consistently defined as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another" (Rousseau et al. 1998 p. 395). Trust is a core construct for businesses since it is one of the most significant predictors of loyalty (Chaudhuri & Holbrook, 2006). Actually, the consumer's perceptions of business ethics have a strong effect on the consumer trust towards a company and/or brand (Diallo & Lambey-Checchin, 2017). Loyal customers are necessary for businesses to prosper. Empirical evidence supports the relevance of reputation by showing that consumers perceptions of ethical behavior are directly correlated with trust (Valenzuela et al., 2010). Accordingly, we argue that when people are exposed to a

case of corruption, compared to no corruption and whistleblowing, they will evaluate the organization and its managers as being less ethical as well as less trustworthy, because perceptions of business ethics impact the reputation and influence trust directly (Valenzuela et al. 2010). Moreover, we argue that when exposed to whistleblowing, a core mechanism to fight corruption, this effect will be more positive than in no corruption. Thus:

**H1:** Perceived Reputation, operationalized by CPE and trust, will be: **a)** lower when exposed to corruption, compared to no corruption and whistleblowing; **b)** lower when exposed to no corruption, compared to whistleblowing.

### ***Impact on Consumer Behavior***

Amongst the many elements that comprise Consumer Behavior, **Purchase Intention** is directly related with a company's sales and, consequently, with its financial sustainability. Consumers use their memories and information about a company in order to make purchase decisions, so brand association is a fundamental part of consumer behavior (Aaker & Keller, 1990). Companies rely on their consumers to survive and prosper; therefore, there is a need to guarantee positive consumer behavior, namely, motivate purchase intention. Thus, there is evidence that a company's ethicality is highly regarded by consumers during purchase decision (Creyer, 1997). Additionally, company's CSR, which is a common operationalization of ethics, is positively correlated with purchase intention (Deng & Xu, 2017). Conversely, the existence of negative publicity associated with crises substantially affects consumers purchase intention (Lin et al., 2010). Therefore, reports of ethical misconduct may generate perceptions that impact purchase behavior negatively.

**Boycott intention** is also a relevant manifestation of consumer behavior that can be defined as "an attempt by one or more parties to achieve certain objectives by urging individual consumers to refrain from making selected purchases in the marketplace" (Friedman, 1985 p.

97). Negative moral responses to corporate misconduct commonly cause negative word of mouth (that may be considered to reflect boycott intention) and protest towards corporations (Grappi et al., 2013). As previous findings recognize that ethical judgements are a core part of consumer behavior, especially when it comes to purchase intention and recommend and/or boycott intention, we argue that businesses wrongdoing (corruption) impacts consumer behavior more negatively when compared to scenarios of no corruption and whistleblowing; and that whistleblowing impacts consumer behavior more positively when compared to no corruption. Hence:

**H2:** Consumer Behavior, operationalized by purchase intention and boycott intention, will be:  
**a)** lower when exposed to corruption, compared to no corruption and whistleblowing; **b)** lower when exposed to no corruption, compared to whistleblowing.

### ***Impact on Prospective Employment***

Highhouse et al. (2003) highlight three components of organizational attraction to assess organizational pursuit: attractiveness, prestige and behavioral intentions. Therefore, these are key elements to discuss Prospective Employment.

First, the company **general attractiveness** can be briefly described as the individual's personal attitudes and feelings towards a particular company as a potential employer (Highhouse et al., 2003). The relevance of general attractiveness is strengthened by findings that suggest a positive relation between social performance and employer general attractiveness for job seekers with high levels of job choice (Albinger & Freeman, 2000).

Second, the **pursuit intention** reflects individual's attitudes that involve further action, specifically, the active pursuit of a job (Highhouse et al., 2003). This component is enhanced by corporate social performance, which comprises the moral norms and standards of a business and are reflected, for example, by the company's corporate citizenship and CSR (Lin et al.,

2010). Corporate social performance benefits companies by strengthening their attractiveness (Lin et al., 2010). Additionally, companies with greater social performance can attract more talent and achieve benefits associated to human resources and recruitment (Wang, 2013).

Finally, **prestige** is intrinsically related with the individual perceptions of social standards and translates the positive or negative social consensus regarding the company's characteristics (Highhouse et al., 2003). This normative component impacts stakeholders' perceptions. Actually, brand prestige is improved by higher consumer identification which is generated by a company's CSR, that commonly translates the ethicality of a company (Pérez, 2009). Considering that organizational pursuit is influenced by perceptions of ethicality, we argue that prospective employment will be lower exposed to a scenario of corruption, when compared to scenarios of no corruption and whistleblowing. Moreover, we argue that whistleblowing has a more positive impact on prospective employment when compared to no corruption. Thus:

**H3:** Prospective Employment, operationalized by general attractiveness, intention to pursue and prestige, will be: **a)** lower when exposed to corruption, compared to no corruption and whistleblowing; **b)** lower when exposed to no corruption, compared to whistleblowing.

## **Business Ethics across Generations**

The Generation Y, also denominated Millennial Generation, comprises all individuals born between the early 1980s and mid-1990s to early 2000s (Goldman and Sachs; Dimock, 2018). Millennials comprise a growing segment of consumers and employees in companies that will play an increasingly relevant role in our society in the years to come. Yet, this generation differs from previous generations by being increasingly suspicious of businesses. Millennials' opinions regarding businesses motivations and ethics have been decreasing in the past years and currently less than half believe that businesses behave ethically (48%) and that business leaders are committed to improve society (Fu, 2017). These findings denote a decline in the

perceived ethicality of both corporations and business leaders, and identify Millennials as the least trusting generation (New Strategist Publications, 2004).

The rising consideration of ethics, values, corporate reputation, responsibility and leadership, translate a growing ethical sensitivity that, in turn, influences this generation's perception of businesses (Smith, 2011). As consumers, Millennials are more sensible to social justice and prioritize brands that are authentic, which reflects the importance of transparency regarding ethical issues for this generation (Euromonitor International, 2015). Additionally, this generation is a rising segment of consumers and employees that will comprise three-quarters of the global workforce by 2025 (EYGM, 2015).

Considering the Millennials characteristics and age as one of the most significant demographic variables when studying consumer practices (Vittel, 2003), we argue that the Millennial generation will denote a higher sensitivity towards business ethics and misconduct (particularly, corruption), when compared to no corruption and whistleblowing; and that Millennials will evaluate whistleblowing better than No Corruption, when compared to previous generations (Gen X and Baby Boomers). Moreover, we argue that Millennials, when compared to those same previous generations, will consistently evaluate wrongdoing (corruption) more negatively than no corruption and whistleblowing; and that they will consistently evaluate no corruption more negatively than whistleblowing, when compared to previous generations (Gen X and Baby Boomers). Thus:

**H4:** Perceived Reputation, operationalized by organization and leadership CPE and trust, will be lower for Millennials compared to previous generations (Gen X and Baby Boomers).

**H5:** Consumer Behavior, operationalized by purchase intention and boycott intention, will be lower for Millennials compared to previous generations (Gen X and Baby Boomers).

**H6:** Prospective Employment, operationalized by general attractiveness, intention to pursue and prestige, will be lower for Millennials compared to previous generations (Gen X and Baby Boomers).

**H7:** Perceived Reputation, operationalized by CPE and trust, will be: **a)** lower when exposed to corruption, compared to no corruption and whistleblowing, and this effect should be stronger for Millennials when compared to previous generations; **b)** lower when exposed to no corruption, compared to whistleblowing and this effect should be stronger for Millennials when compared to previous generations.

**H8:** Consumer Behavior, operationalized by purchase intention and boycott intention, will be: **a)** lower when exposed to corruption, compared to no corruption and whistleblowing, and this effect should be stronger for Millennials when compared to previous generations; **b)** lower when exposed to no corruption, compared to whistleblowing and this effect should be stronger for Millennials when compared to previous generations.

**H9:** Prospective Employment, operationalized by general attractiveness, intention to pursue and prestige, will be: **a)** lower when exposed to corruption, compared to no corruption and whistleblowing, and this effect should be stronger for Millennials when compared to previous generations; **b)** lower when exposed to no corruption, compared to whistleblowing and this effect should be stronger for Millennials when compared to previous generations.

## **Context**

The Corruption Perception Index evaluates and ranks countries according to how corrupt the nation's public sector is perceived to be by experts and corporate executives (Transparency International, 2017). Companies from Southern European countries tend to perform worst in controlling corruption and bribery, when compared to other EU countries (Scholtens & Dam, 2007). This pressing issue is especially relevant in Portugal, who's score on the Corruption

Perception Index (Transparency International, 2017) remains below the Western European countries average. For comparison reasons, European countries such as Denmark (2<sup>nd</sup>) rank the highest with a score of 88, followed by Finland, Norway and Switzerland (3<sup>rd</sup>) with a score of 85 on the Corruption Perception Index (2017). Portugal ranks 29<sup>th</sup> (sharing this position with Qatar and Taiwan), with a score of 63. According to the World Bank's Control of Corruption perception measure, Portugal experienced a yearly average growth rate of -2.27% between 1996 to 2017 (World Bank, 2017). These numbers reflect a perpetuating reality. Today, Portugal still faces many corruption cases, involving private corporations and/or public entities (e.g. BES; Operação Marquês; E-Toupeira; Segurança Social do Areeiro; Turismo do Porto).

The impact of corruption can be felt at the organization level, by reducing the financial performance of a company (Van Beurden & Gössling, 2008) and at a national level, by impacting the economic development of a country and diminishing its growth rate (Mo, 2001). In the case of Portugal, the country ranks 42<sup>nd</sup> on the World Economic Forum Competitiveness Index, amongst other 103 European & Northern America nations. Thus, Portugal is one of the least competitive economies in this region (World Economic Forum, 2018) that also ranks poorly (24<sup>th</sup>) amongst European nations in terms of purchasing power parity (IMF, 2017).

Whistleblowing is a mechanism that is currently being encouraged as a mean to hinder corruption and corporate misconduct in Europe. Nonetheless, and according to the Portuguese report for OECD Working Group on Bribery's (2015), the country is yet to properly address the legislation of whistleblower protection. Purposely, the report denotes that the implemented measures are not sufficient to fully protect whistleblowers, which in turn hinders their actions. Therefore, whistleblowing is a practice that is yet to be adequately enforced in the country. In conclusion, the current Portuguese reality highlights the relevance of a more comprehensive understanding regarding business ethics, corruption and whistleblowing in such context.

## **Method**

### **Participants and Research Design**

Our sample comprises a total of 203 usable questionnaires from two populations, correspondingly, 131 from the Millennial Generation and 72 from previous generations (Gen X and Baby-Boomers). The questionnaire was distributed online through Qualtrics and scenarios were automatically randomized by the software. Responses were voluntary and anonymous.

Participants were randomly allocated to one of the three experimental conditions: Corruption (Millennials = 46; Previous Generations = 23), No Corruption (Millennials = 42; Previous Generations = 27) and Whistleblowing (Millennials = 43; Previous Generations = 22). The age from Generation Y respondents ranged from 18 to 36 with a mean age of 23 years old. The majority of Millennial respondents were female (64%). Additionally, 53% of participants indicated they had completed a bachelor's degree, 36% had a master's degree, and 2% an MBA or a PhD. The remaining had a complete High School education up until the moment of their participation. Additionally, the majority of participants indicated as area of training Management, Business or Economics (41%), Social Sciences (31%), Sciences and Engineering (23%), while the remaining indicated different areas. Part of the respondents (48%) indicated their current situation as studying full-time, while the remaining indicated they were working full-time (34%), studying and working (13%) or looking for their first job (5%).

In the sample that comprised Gen X and Baby Boomers, the respondents age ranged from 37 to 65, with a mean age of 51 years old. The majority of respondents were female (57%). Additionally, 65% of participants had completed a bachelor's degree, 17% had a master's degree, and the remaining a postgraduate degree (Master, Doctorate or MBA). As area of training/jobs, 18% of participants indicated Management, Business or Economics, 31% Social Sciences, 22% Education, 21% Sciences and Engineering and 8% indicated other areas. The

majority of respondents (89%) also indicated their current situation as working full-time, while the remaining indicated working part-time (7%) or studying (4%).

Three scenarios (**Appendix I**) were created with the purpose of illustrating an ethical dilemma, however, in each scenario participants were exposed to distinct responses, hence, different managerial decision-making. The news story is similar in every scenario: two managers belonging to a fictional company (Indizet) are invited to pay a bribery to get a building permit and are also asked to give money for privileged information. In the first scenario, the managers accept the offer (Scenario 1 – Corruption), in the second scenario they refuse the offer (Scenario 2 - No Corruption) and in the third scenario the two managers blow the whistle regarding these bribery attempts (Scenario 3 - Whistleblowing). To provide a strong manipulation, we distinctively detailed the managerial decision-making across different parts of the news article. In the title of the news article: e.g. “accused of corruption” (Scenario 1), “says no to corruption” (Scenario 2), “fights corruption” (Scenario 3). Second, in the body of the news article: e.g. “accepted the corruption offer” (Scenario 1), “refused the corruption offer” (Scenario 2), “refused the corruption offer and decided to publicly disclose the case” (Scenario 3). The manipulations are highlighted in **Appendix I**.

Driven by a need for self-enhancement, consumers are often positively biased regarding their home country evaluations (Verlegh, 2007). Hence, to guarantee unbiased results, the nationality of the company portrayed in all the three scenarios of the experiment did not correspond to the nationality of the respondents. After carefully analyzing the country scores on the measures of perceived corruption, Switzerland was chosen as home-country for the company in the news article. Not only did this country had one of the highest scores on the CPI (2017), as it has been, historically, a neutral European country. Moreover, to control the influence of evaluations based on the gender all characters are male. The use of scenarios to collect data regarding ethical issues in business has been established by research for many years

(Weber, 1992). Finally, this methodology stimulates respondents' reasoning, their behavior and their beliefs regarding ethical issues (Culiberg & Mihelič, 2016; Stedham & Beekun, 2013).

## **Measures**

Taking into account the information presented in the allocated scenario, participants rated different statements on a 7-point Likert-scale from 1 = "strongly agree" to 7 = "strongly disagree" for each of the outcomes.

### ***Perceived Reputation***

To measure the consumer **perceived ethicality** (CPE) regarding **leadership** (L) and the **organization** (O), we used a 6-item version of Brunk (2012). Sample questions contained items such as: "The two managers respect moral norms" and "Indizet avoids damaging behavior at all costs". Cronbach's alpha for perceived ethicality (L) was .91 for the Millennial Generation and .88 previous generations (Gen X and Baby Boomers). Cronbach's alpha for perceived ethicality (O) was .95 for the Millennial Generation and .96 for previous generations (Gen X and Baby Boomers). To measure **trust** regarding **leadership** (L) and the **organization** (O), we used a 7-item adapted version from Gabarro & Athos (1976) in Robinson (1996). Sample questions contained items such as: "I believe the two managers have high integrity" and "Indizet is not always honest and truthful.". Cronbach's alpha for trust (L) was .87 for the Millennial Generation and .85 previous generations (Gen X and Baby Boomers). Cronbach's alpha for trust (O) was .85 for the Millennial Generation and .92 for previous generations (Gen X and Baby Boomers).

### ***Consumer Behavior***

To measure **purchase intention** 3 items were adapted from Deng & Xu (2017). Sample questions contained items such as: “I would consider Indizet as my first choice to buy products”. Cronbach’s alpha was .87 for the Millennial Generation and .92 for previous generations (Gen X and Baby Boomers). To measure **boycott intention** 3 items were reversed from Deng & Xu (2015) and 1 item was adapted from Alhouti et al. (2016). Sample questions contained items such as: “I would boycott the product of Indizet”. Cronbach’s alpha was .82 for the Millennial Generation and .95 for previous generations (Gen X and Baby Boomers).

### ***Prospective Employment***

To measure **general attractiveness** 5 items were adapted from Highhouse et al. (2003). Sample questions contained items such as: “Indizet would be attractive to me as a place for employment”. Cronbach’s alpha was .87 for the Millennial Generation and .90 for previous generations (Gen X and Baby Boomers). To measure **intention to pursue** 5 items were adapted from Highhouse, Lievens & Sinar (2003). Sample questions contained items such as: “I would accept a job offer from Indizet”. Cronbach’s alpha was .82 for the Millennial Generation and .89 for previous generations (Gen X and Baby Boomers). To measure **prestige** 5 items were adapted from Highhouse, Lievens & Sinar (2003). Sample questions contained items such as: “Indizet would be a reputable company to work for.”. Cronbach’s alpha was .88 for the Millennial Generation and .94 for previous generations (Gen X and Baby Boomers).

## **Results**

We conducted a multivariate analysis of variance (MANOVA) to analyze the data and test the mean differences between experimental conditions by scenario and across all scenarios. The results of the multivariate analysis are presented in **Table I**.

Table I: Tests of Between-Subjects Effects

	df	Perceived Reputation				Consumer Behavior		Prospective Employment		
		Trust (M) F	CPE (M) F	Trust (O) F	CPE (O) F	Purchase Int. F	Recommend Int. F	General Att. F	Int. Pursue F	Prestige F
Scenario	2	41,90**	36,20**	16,82**	19,91**	7,54**	12,70**	11,72**	8,49**	12,95**
Generation	1	4,63*	9,29**	1,10	1,91	6,12*	0,02	17,97**	16,02**	10,15**
Scenario*Generation	2	1,00	0,09	0,12	0,33	0,04	0,41	1,86	0,22	1,04

Note: \* p<0.05; \*\* p<0.01

**Table I** shows significant differences across scenarios in all three dimensions (Perceived Reputation, Consumer Behavior and Prospective Employment) which demonstrates that overall participants had significantly distinct reactions for each scenario.

For generations we found significant differences between Millennials and previous generations (Gen X and Baby Boomers). For Perceived Reputation, we found significant differences exclusively for the manager outcomes, specifically, manager's trust (M) and manager's CPE (M), which translate the consumers ethical perceptions regarding the company's leadership. For Consumer Behavior we only found significant differences for purchase intention. For Prospective Employment, we found significant differences for all outcomes, namely, general attractiveness, intention to pursue and prestige. Hence, results show that the scenario effect is much stronger than the generational effect.

Finally, results show that there were no significant interactions between scenarios and generations, thus there are no significant differences between Millennials and previous generations (Gen X and Baby Boomers) when interpreting the same scenario. That is, overall reactions to scenarios are similar in both generational cohorts. Hence, **H7**, **H8** and **H9** are not supported.

Table II: Summary Scenarios Results

	N	Perceived Reputation				Consumer Behavior		Prospective Employment		
		Trust (M)	CPE (M)	Trust (O)	CPE (O)	Purchase Int.	Boycott Int.	General Att.	Int. Pursue	Prestige
Scenario	203	Mean (SD)	Mean (SD)	Mean (SD)	Mean (SD)	Mean (SD)	Mean (SD)	Mean (SD)	Mean (SD)	Mean (SD)
Corruption	69	3,09 <sup>a</sup> (0,14)	3,10 <sup>a</sup> (0,16)	3,40 <sup>a</sup> (0,14)	3,06 <sup>a</sup> (0,17)	3,61 <sup>a</sup> (0,17)	4,00 <sup>a</sup> (0,17)	3,61 <sup>a</sup> (0,15)	3,68 <sup>a</sup> (0,14)	3,85 <sup>a</sup> (0,15)
No Corruption	69	4,79 <sup>b</sup> (0,13)	4,89 <sup>b</sup> (0,15)	4,48 <sup>b</sup> (0,13)	4,52 <sup>b</sup> (0,17)	4,49 <sup>b</sup> (0,16)	5,16 <sup>b</sup> (0,16)	4,61 <sup>b</sup> (0,15)	4,42 <sup>b</sup> (0,13)	4,85 <sup>b</sup> (0,15)
Whistleblowing	65	4,24 <sup>c</sup> (0,14)	4,57 <sup>b</sup> (0,16)	4,05 <sup>c</sup> (0,14)	4,10 <sup>b</sup> (0,18)	4,22 <sup>b</sup> (0,17)	4,46 <sup>b</sup> (0,17)	4,31 <sup>b</sup> (0,16)	4,28 <sup>b</sup> (0,14)	4,71 <sup>b</sup> (0,16)

Note: <sup>a b c</sup> Indicate significantly different values between scenarios

Scenarios results are detailed in **Table II**. First, we found significant differences for all outcomes when comparing Corruption with the other two scenarios. Additionally, Corruption consistently presents lower mean values when compared to No Corruption and Whistleblowing for all outcomes studied. Thus, hypotheses **H1a**, **H2a** and **H3a** are supported.

Second, we found significant differences in one dimension between scenarios No Corruption and Whistleblowing. Specifically, we found significant differences for Perceived Reputation in the outcome trust in managers (M) and trust in the organization (O). That is, effects on the Perceived Reputation of a company mostly impact trustworthiness. However, and against our prediction, mean values are consistently higher for No Corruption when compared to Whistleblowing. Hence, hypotheses **H1b**, **H2b** and **H3b** are not supported.

Table III: Summary Generations Results

	N	Perceived Reputation				Consumer Behavior		Prospective Employment		
		Trust (M)	CPE (M)	Trust (O)	CPE (O)	Purchase Int.	Boycott Int.	General Att.	Int. Pursue	Prestige
Generation	203	Mean (SD)	Mean (SD)	Mean (SD)	Mean (SD)	Mean (SD)	Mean (SD)	Mean (SD)	Mean (SD)	Mean (SD)
Millennial Gen	131	3,87 <sup>a</sup> (0,09)	3,91 <sup>a</sup> (0,11)	3,90 <sup>a</sup> (0,09)	3,76 <sup>a</sup> (0,12)	3,87 <sup>a</sup> (0,11)	4,55 <sup>a</sup> (0,11)	3,80 <sup>a</sup> (0,10)	3,82 <sup>a</sup> (0,09)	4,19 <sup>a</sup> (0,10)
Previous Gen	72	4,21 <sup>b</sup> (0,13)	4,47 <sup>b</sup> (0,15)	4,06 <sup>a</sup> (0,13)	4,03 <sup>a</sup> (0,16)	4,34 <sup>b</sup> (0,15)	4,53 <sup>a</sup> (0,15)	4,55 <sup>b</sup> (0,14)	4,44 <sup>b</sup> (0,13)	4,75 <sup>b</sup> (0,14)

Note: <sup>a b</sup> Indicate significantly different values between generations

**Table III** details the results corresponding to generations. First, there are significant differences between Millennials and previous generations (Gen X and Baby Boomers).

Specifically, for Perceived Reputation in the outcomes manager's trust (M) and manager's CPE (M). For Consumer Behavior, in the outcome purchase intention. Finally, for Prospective Employment, in the outcomes: general attractiveness, intention to pursue and prestige. In these cases, Millennials' mean values are consistently lower when compared to previous generations (Gen X and Baby Boomers) mean values. Thus, Millennials' present consistently lower evaluations for all reactions. The significant differences across these outcomes partially support hypotheses **H4** and **H5** and fully support hypothesis **H6**.

## **Discussion**

The purpose of this study was to evaluate the impacts of corruption and whistleblowing on external stakeholders and investigate generational effects. Our findings show significant differences across all scenarios. Amongst them, Corruption is consistently the poorest evaluated scenario. Additionally, we found significant differences between No Corruption and Whistleblowing scenarios for the outcomes trust in managers and trust in the organization. We also discovered that Whistleblowing is constantly perceived as more negative than No Corruption. Amongst the two generational cohorts we found significant differences for Perceived Reputation, namely, both trust and CPE for managers. For Consumer Behavior, for purchase intention. Lastly, for Interest of Prospective Employees, for general attractiveness, intention to pursue and prestige. We found that Millennials consistently evaluate organizations worse than previous generations (Gen X and Baby Boomers). Finally, no effect was found between scenarios and generation, which means that different generations do not interpret scenarios differently, as we initially argued.

## Theoretical Implications

Our findings help to clarify the relevance of ethics for companies, since stakeholder's reactions towards different scenarios (Corruption, No Corruption and Whistleblowing) are not necessarily uniform. According to our results, Corruption triggers the most negative reactions and, consequently, entails costs for organizations that engage in ethical misconduct. These findings support previous empirical evidence and highlight the need to further study solutions that fight corruption in organizations. The increased awareness and knowledge towards business ethics has been suggested to help companies deal with the emergence of ethical dilemmas that may lead to wrongdoings, such as corruption (Wilhelm, 2002).

Additionally, the controversial role of Whistleblowing is reflected in our findings and show that it may not necessarily involve the benefits suggested by previous research (e.g. Near & Miceli, 1985). Moreover, these concerning results seem to reflect that perceptions regarding whistleblowing are heading in the opposite direction of the institutional and legal efforts to protect whistleblowing (Culiberg & Mihelič, 2017). Actually, our findings show that Whistleblowing harms trustworthiness. These results plus the previously identified challenges that this process entails (see Vandekerckhove & Commers, 2002) are hardly motivating for whistleblowers. Participants expressed no significant differences regarding the remaining outcomes, which means that whistleblowing does not significantly affect their purchase behavior nor their interest as prospective employees, but it consistently affects their trust in the managers that blew the whistle. Hence, the poor perceptions regarding whistleblowing may seem to add to the lack of *positive whistleblowing*, a problem that is believed to greatly contribute to the endurance of corruption (Transparency International, 2015). Therefore, there is a need to better signal this behavior positively in order to protect whistleblowers.

Finally, we found that Millennials are indeed the generation that evaluates companies more poorly regarding ethical issues. Across all outcomes, Millennials' evaluation pattern was

lower when compared to previous generations (Gen X and Baby Boomers). Moreover, there were significant differences amongst their evaluations regarding trust, perceived ethicality, purchase intention, general attractiveness, intention to pursue and prestige. Therefore, as it was argued, they present a stronger reaction to ethical matters. However, our findings did not demonstrate that Millennials are more sensible to ethical information per se, since the interaction between scenario and generation did not show any significant differences.

### **Practical Implications**

Our findings demonstrate that corruption significantly affects the three considered dimensions of Perceived Reputation, Consumer Behavior and Prospective Employment. As a result, corporations should promote ethical values and ethical decision-making to actively fight misconduct amongst employees and managers. Thus, companies must strive to nurture business ethics and establish clear limits in their organization to avoid ethical failures that can ultimately lead to financial problems. For instance, Bishara & Schipani (2009) developed a framework that helps companies to identify, prevent and establish mechanisms that capable of warning and consequently eliminating corruption. Hence, these authors believe companies will be able to learn from previous missteps and, subsequently, avoid future failures. Moreover, executives play a fundamental role in companies and while they have ethical obligations towards the organization, financial demands frequently overshadow its importance. Therefore, strengthening the accountability of executives and shareholder protection can help to prevent ethical misconduct (Bishara & Schipani, 2009).

Our results show that whistleblowing is still perceived as shady. Nonetheless, whistleblowers play an essential role in corporations by denouncing wrongdoing that harms the organization. For that reason, we highlight the need for companies to establish and encourage formal processes of whistleblowing internally, in order to prevent wrongdoing in the

organization from within. By developing effective and transparent processes of whistleblowing, companies can prevent costs associated with scandals, such as employee's loyalty and optimism, fines and lawsuits (Paul & Townsend, 1996). Thus, if companies have mechanisms in place to detect wrongdoing internally, they will also avoid the many challenges that external whistleblowing entails. Nevertheless, shifting the perceptions of stakeholders regarding whistleblowing must be a priority, since they play a relevant role in society. Therefore, the role of whistleblower must be stressed, and awareness must be increased regarding the phenomenon, by developing better regulations to protect whistleblowers.

Finally, our results on Millennials show that this generation is in fact the least trusting of generations (when compared to Gen X and Baby Boomers). The Millennial generation represents a growing segment of consumers and employees, consequently, it becomes increasingly relevant for companies to work on how they are communicating with that specific market. Millennials see companies through a different lens and are, from the start, more distrustful of companies' ethical motivations and actions when compared to previous generations (Fu, 2017). Hence, companies that want to establish its position amongst Millennials consumers must prioritize authenticity and transparency regarding ethical issues because this generation consider ethical behavior to be determinant for a company success. Actually, Millennials expects businesses to balance financial goals with social and ethical concerns regarding world's problems (Fu, 2017). For that reason, companies must be more attentive to the development and implementation of corporate social responsibility plans and company citizenship practices, since nowadays these are strategic elements of differentiation for Millennials.

## **Limitations and Future Research**

As any other study, our research has a number of limitations. First, there is the common issue of generalization in experimental research. This experimental design involving scenarios allowed us to better manipulate information to understand the effects on the outcomes considered. Nonetheless, higher control over the outcomes implies that the effects are exactly a cause of the controlled setting. Thus, internal validity was enhanced at the expense of external validity, which means the results may not be generalizable to the larger population, since it creates an artificial situation that may not represent a real-life situation. Secondly, our sample from previous generations (Gen X and Baby Boomers) is smaller than the Millennial Generation sample. Our purpose was to collect a similar number of participants for both samples, yet difficulties in the collection of responses did not allow us to achieve it. Despite the small difference between samples, we thought the generational comparison was worth pursuing and as our findings demonstrate there are, in fact, significant differences amongst the two generational cohorts considered.

Finally, even though our results show that corruption has significant costs, it still reflects a troubling reality in companies. Research on whistleblowing should further explore the reasons behind the low perceptions regarding whistleblowing and its ineffectiveness as a mechanism to fight corruption. Additionally, since our finding showed that whistleblowing significantly damages trustworthiness in the leadership and in the organization as a whole, it is relevant to further understand if other characteristics of the process influence the perceptions regarding whistleblowing, namely, the top-management support. Furthermore, it is interesting to study if its controversial role is a contextual issue, or if it is part of a bigger problem. Previous findings on whistleblowing denote the controversial role in organizations across the globe. Accordingly, future research should conduct a similar experiment in a cross-cultural setting, since culture is a determinant predictor of corruption and its consequences (Scholl & Schermuly, 2018). For

example, Hofstede's cultural dimensions power distance, masculinity and uncertainty avoidance are suggested to have a higher influence on corruption (Husted & Allen, 2008). As a result, the more collectivist a society is, the higher the level of corruption will be. Moreover, unethical behaviors (such as corruption) are more likely to be motivated in collectivist cultures, where connections are usually set on long-lasting relationships (Achim, 2016). Thus, research should further explore the role of whistleblowing in countries with a high score on the Corruption Perception Index to understand if interpretations and reactions would be different to the results found in Portugal, a country that scores poorly on the CPI (Transparency International, 2017).

## **Conclusion**

Our study is among the few to explore the effects of whistleblowing and corruption and provides a broader perspective regarding external stakeholders and multiple generations. Our findings show that corruption is the source of significant costs for companies. However, contrary to our initial expectations we found that whistleblowing is still a controversial issue that affects trustworthiness and, subsequently, impacts the organization's reputation negatively. This concerning reality highlights the need for further research in business ethics in general and whistleblowing in particular. As Albert Einstein stated: "The world is a dangerous place, not because of those who do evil, but because of those who look on and do nothing". Therefore, to encourage whistleblowing as a mechanism to fight corruption, further investigation is still required to fully clarify the determinant role of the whistleblower in companies as well as in society.

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# Appendices

## Appendix I – Scenarios

### (1) Indizet accused of corruption: Managers under investigation due to allegations of accepting bribery

Thomas Smith August 28, 2018 2:17PM

Indizet, one of the largest fashion retailers in Europe and with HQ in Switzerland, is under scrutiny after the disclosure of information regarding bribery attempts and access to privileged information. The documents in question suggest that two top managers of the company were



approached by high-level officials in order to pay a bribe to get a building permit for a new store in a privileged neighbourhood and **accepted the corruption offer**. The area is particularly notorious for its high-end shopping and accommodation in the city. Confidential sources added that these Indizet managers are **also accused of paying for privileged information** about a rival company's proposal that apparently was also interested in the lot to build a new store. These managers **were formally indicted**. The Swiss company has a total annual sales volume of €3 billion. Simon Keller, CEO of the company, is yet to comment these recent accusations. The case has been highly addressed by the media, as Switzerland ranks 3<sup>rd</sup> in the Corruption Perception Index (CPI), being one of the least corrupt countries in the world, along with northern European countries, such as Denmark, Finland, Norway and Sweden.

Source: **Business Insights**

### (2) Indizet says no to corruption: Managers under the spotlight after refusing bribery attempts

Thomas Smith August 28, 2018 2:17PM

Indizet, one of the largest fashion retailers in Europe and with HQ in Switzerland, is under scrutiny after the disclosure of information regarding bribery attempts and access to privileged information. The documents in question suggest that two top managers of the company were



approached by high-level officials in order to pay a bribe to get a building permit for a new store in a privileged neighbourhood but **refused the corruption offer**. The area is particularly notorious for its high-end shopping and accommodation in the city. Confidential sources added that these Indizet managers **also refused to pay for privileged information** about a rival company's proposal that apparently was also interested in the lot to build a new store. These managers are **not involved in the legal process**. The Swiss company has a total annual sales volume of €3 billion. Simon Keller, CEO of the company, is yet to comment these recent accusations. The case has been highly addressed by the media, as Switzerland ranks 3<sup>rd</sup> in the Corruption Perception Index (CPI), being one of the least corrupt countries in the world, along with northern European countries, such as Denmark, Finland, Norway and Sweden.

Source: **Business Insights**

### (3) Indizet fights corruption: Managers blow the whistle and bring to public bribery attempts

Thomas Smith August 28, 2018 2:17PM

Indizet, one of the largest fashion retailers in Europe and with HQ in Switzerland, is under scrutiny after the disclosure of information regarding bribery attempts and access to privileged information. The documents in question suggest that two top managers of the company were



approached by high-level officials in order to pay a bribe to get a building permit for a new store in a privileged neighbourhood but **refused the corruption offer and decided to publicly disclose the case to authorities**. The area is particularly notorious for its high-end shopping and accommodation in the city. Confidential sources added that these Indizet managers are **also blowing the whistle** about an attempt to bribe them into paying for privileged information about a rival company's proposal that apparently was also interested in the lot to build a new store. These managers are **key witnesses in the legal process**. The Swiss company has a total annual sales volume of €3 billion. Simon Keller, CEO of the company, is yet to comment these recent accusations. The case has been highly addressed by the media, as Switzerland ranks 3<sup>rd</sup> in the Corruption Perception Index (CPI), being one of the least corrupt countries in the world, along with northern European countries, such as Denmark, Finland, Norway and Sweden.

Source: **Business Insights**