Human Resource Management Review 20 (2010) 317–326

Contents lists available at ScienceDirect

Human Resource Management Review

journal homepage: www.elsevier.com/locate/humres

Are human resource practices linked to employee misconduct? A rational choice perspective

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ARTICLE INFO

Keywords:
Performance appraisal
Compensation
Ethics
Employee misconduct

ABSTRACT

This paper explains how well intended HR practices associated with performance appraisal and compensation can be linked to employee misconduct. Based on a rational choice perspective to ethical behavior, different types of HR configurations are likely to either increase the perceived costs or benefits of employee misconduct. This paper links specific HR configurations with both perceived costs and benefits of employee misconduct. Finally, this paper concludes with recommendations that are designed to promote both effective job performance and minimize problems of employee misconduct.

"The Road to Hell is paved with good intentions" Samuel Johnson, 1775

1. Introduction

The breadth of high profile cases of criminal behavior and misconduct in contemporary American, European (Knights & O'Leary, 2005), and Asian (Sang-Hun, 2007) businesses has received significant attention in both the academic literature and the popular press (Baucus & Baucus, 1997; Baucus & Near, 1991). The court convictions of executives engaged in criminal behavior that occurred at companies such as Enron, Adelphia, Parmalat, and Samsung have broad social impacts associated with the collapse or decline of these firms. The more recent cases in the collapse of financial giants such as AIG and Merrill Lynch, suggest that misconduct persists and appears to be a chronic problem. The misconduct can adversely affect numerous stakeholders such as employees, stockholders, creditors, and customers (Hooker, 2009).

The issue of misconduct within companies leads to the question, "Why do employees engage in misconduct?" The typical white collar person who engages in misconduct is a middle aged white male. White collar, middle aged white males would not normally fall into your stereotypes of people who engage in illegal behavior. Furthermore, these actions occur in spite of control systems such as codes of ethics, toll free numbers to anonymously report inappropriate actions, managerial oversight, and sophisticated internal auditing practices that are intended to reduce illegal behavior. Previous research suggests that individual differences (see O'Fallon & Butterfield, 2005 for a recent literature review) including demographic variables such as gender (McCabe, Ingram, & Dato-on, 2006), personality traits (Greenberg, 2002), and stages of moral development (Greenberg, 2002) influence misconduct. Research also suggests that organizational contexts such as codes of ethics (Schwartz, 2001; Beu & Buckley, 2004), leadership and

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1053-4822/$ – see front matter
doi:10.1016/j.hrmr.2009.10.002

management (Grojean, Resick, Dickson, & Smith, 2004), and organizational culture or norms (Ashforth & Anand, 2003) influence misconduct.

While acknowledging the significance of earlier research as both individual differences and organizational contexts shape misconduct, this paper proposes a model of misconduct that focuses on human resource management practices as a seldom examined antecedent of misconduct. Accordingly, the primary contribution of this paper is to link *specific* and well intended HR practices associated with both performance appraisal and compensation as an organizational context that shapes misconduct. This goes beyond existing approaches that link the generic importance of HR functions with misconduct (James, 2000; Buckley et al., 2001; McDevitt, Giapponi, & Tromley, 2007) by suggesting that firms need to carefully examine the potential effects of different HR compensation and performance appraisal practices. For example, it has been suggested that certain reward systems such as sales commission plans and large cash bonuses may encourage people to engage in misconduct (Gomez-Mejia & Balkin, 1992). This statement is overly simplistic because reward systems vary significantly. Perhaps, different design features of incentive systems are likely to create misconduct.

This paper first examines the construct of employee misconduct. It then demonstrates how HR practices can influence the perceived costs and benefits of actions that lead to employee misconduct. Finally, it discusses alternative ways to structure HR practices to minimize the potential of employee misconduct.

2. Employee misconduct

Numerous terms have been used to describe unethical behavior in organizations. A broad category of literature on unethical behavior focuses on organizational deviance (Robinson & Bennet, 1995; O'Leary-Kelly, Griffin, & Glew, 1996; Robinson & O'Leary-Kelly, 1998) or organizational misbehavior (Vardi & Weitz, 2004). This includes severe behaviors such as aggressive, violent, or passive aggressive behaviors such as bullying, assault, and harassment. They may also include behaviors such as embezzlement.

Another category of research on unethical behavior focuses on employee misconduct (Kidder, 2005). Employee misconduct includes a more limited range of unethical behaviors that are related to corporate wrongdoing that often gets highlighted in the media. Examples of these were mentioned earlier. Thus, this type of unethical behavior commonly involves actions that entail violations of socially prescribed behavior. It includes practices such as accounting irregularities, churning customer accounts, inappropriate management of overtime policies, having obvious conflicts of interests such as giving inappropriate gifts to a client, or using company property for personal purposes. Employee misconduct can often occur when employees are aiming at meeting expected performance objectives but decide to use questionable means to achieve those objectives. Therefore, we differentiate employee misconduct from other forms of organizational deviance by limiting it to behaviors that an employee enacts while performing his or her job without intending malice to other parties or the organization.

Thus, employee misconduct is different from ethical actions linked to social responsibility that entails a broader range of proscriptive actions to manage the needs of different stakeholders. In contrast, employee misconduct relates to how people ought to behave in light of professional standards for doing business (Buckley et al., 2001). This can involve committing an infraction of a company rule such as committing dishonesty when booking the date of a sales transaction in order to achieve a sales quota. It can also involve violating a federal customs rule such as attempting to sneak through U.S. customs some contraband Cuban cigars in order to please clients that one is trying to impress. In these situations, an employee is focused on performance and in the process breaks a company rule, a law or ethical principle leading to misconduct.

While the broader scope of organizational deviance and the narrower focus of employee misconduct are both important, we focus on employee misconduct in this paper for two reasons. In particular, we believe that HR and its performance management system may devote too much emphasis of an employee's attention on one goal such as sales revenues and too little attention on other goals such as good customer service, so that misconduct results when customers complain about how they are treated by aggressive sales people.

Secondly we focus on misconduct because it is often subjected to media attention. Acts of misconduct often violate social expectations in the name of greed or self-interest. The public disclosure of employee misconduct may harm an organization's goodwill with customers, suppliers and other important parties (Vogel, 2005). Bankers who sold sub-prime loans for houses to customers with poor credit histories and who later had their home foreclosed have harmed the bank's reputation for being a good standing member of the community that it serves. The bankers in this example did not seek to harm the customers who were sold the sub-prime loans and had their houses foreclosed, rather they were seeking profits for the bank and the pay incentives that were linked to bank profits.

This paper assumes that employee misconduct is a multilevel construct (see Ashforth, Gioia, Robinson, & Trevino, 2008). That is, misconduct occurs in an organizational context and it shapes individual behavior. Both individual and organization factors contribute to the occurrence of misconduct. Thus, we believe a cross level analysis is important to investigate at both the organizational and individual levels of analysis. Additionally, we assume that performance criteria are set at reasonable levels and employees are given some discretion in the ways they choose to achieve pre-established performance goals. Our focus is on the choices that employees make in how they perform under different performance appraisal and compensation practices.

3. Performance management systems and misconduct

Fig. 1 indicates the HR practices and the organizational and individual intervening variables that contribute to employee misconduct. Certain types of compensation practices make misconduct more likely to occur at an individual level. On an

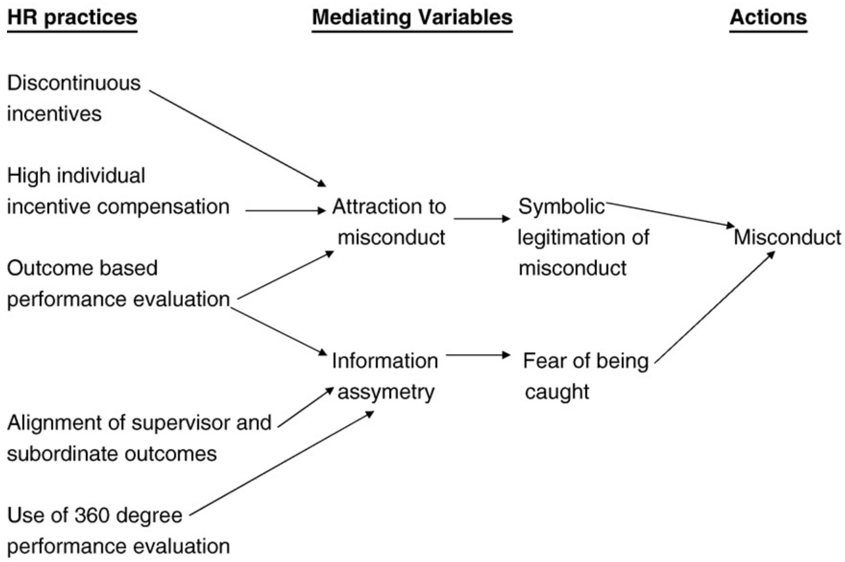

Fig. 1. A rational choice model of HR practices and misconduct.

organizational level, the rewards provided to those who engage in misconduct while exceeding their performance goals send a symbolic message to other employees that legitimate the misconduct and make it more attractive to other individuals. Furthermore, the legitimation process may also spill over to reduce the fear of being caught as the organization has communicated at best an indifferent attitude towards misconduct. A vivid example of the organizational effects of rewarding employee misconduct is provided by Andrew Fastow, the CFO of Enron, who at one time was considered to be a hero within the Enron culture for developing innovative financial deals that enriched the firm as well as himself. Unfortunately, other Enron executives were influenced by Fastow, who eventually received a prison sentence for his misconduct.

Performance appraisal practices that focus on outcomes exclusively (with little attention given to behaviors) can intensify the information asymmetry between supervisors and subordinates. Supervisors may have minimal knowledge of how subordinates achieve their performance outcomes since they are not required to monitor employee behavior and provide behavioral feedback in an outcome based performance appraisal system. Subordinates can take advantage of their greater level of job knowledge by engaging in questionable work practices that lead to desired work outcomes. Information asymmetry is likely to create dysfunctions within a social system as feedback loops are incomplete (Jensen & Meckling, 1976). The incomplete feedback loop is likely to promote this disparity.

Fig. 1 suggests that at the individual level of analysis, employees approach misconduct rationally by considering the opportunities to be gained from misconduct (rewards/incentives) compared to the fear of being caught (performance assessment). When the expected benefits exceed the expectations of being caught, individuals will be prone to engage in misconduct. This is compatible with others who have also proposed that rational choice perspective pervades both ethical behavior (Kidder, 2005; Chiou, Huang, & Lee, 2005; Smith, Simpson, & Huang, 2007) and criminal behavior. This perspective assumes that individuals will weigh the costs and benefits of an action that entails misconduct and that misconduct is likely to occur when it serves the self-interest of the perpetrator (Beu & Buckley, 2004). Both incentives and deterrence are important elements to this perspective (Smith, Simpson, & Huang, 2007). It should be pointed out that the model presented in Fig. 1 does not attempt to indicate all the potential uses of performance appraisal and other HR practices such as employee development. Rather it aims to explain links between HR practices such as compensation and performance appraisal and employee misconduct.

From an individual level of analysis, misconduct reflects a rational choice theory of ethics and overlooks employee individual differences associated with moral integrity. The rational choice perspective is largely a consequentialist perspective that reflects the self-serving advantages and disadvantages of some behavior (Morrell, 2004). We acknowledge that individuals with higher moral integrity are less likely to engage in misconduct despite the organizational context (Ashkanasy, Windsor, & Trevino, 2006). Nonetheless, many employees with less developed awareness of their moral values are likely to be influenced by the ethical context. Therefore, the proposed model is mostly applicable to employees who are inclined to take a consequentialist perspective to misconduct and moral choices. Based on the frequency and persistence of misconduct over time, lower levels of moral integrity appear to be relatively common in business.

It should also be pointed out that misconduct can occur from a bottom up perspective or a top down perspective (Pinto, Leana, & Pil, 2008). Furthermore, Pinto et al. suggest the processes influencing misconduct are quite different between these two models. One of the biggest distinctions occurs with intentionality from upper management. This paper focuses on a bottom up perspective where management unintentionally creates an organizational context that allows an individual to make a rational choice to pursue misconduct.

3.1. Compensation practices and misconduct

As per Fig. 1, we suggest that the configuration of HR practices (see Lepak & Snell, 2002) may increase or decrease the perceived costs and benefits of misconduct. The more prevalent certain practices, the greater the potential rewards to be gained from the misconduct. We begin by focusing on compensation systems as they may create situations that make misconduct to be rationally more attractive.

Different types of compensation systems may *unintentionally* increase the benefits of employee misconduct. Many compensation plans are intended to reward a high performer with increased levels of compensation. However, a basic assumption is that misconduct may lead to increased performance. Misconduct may be seen by some employees as a short term tactic to achieve higher levels of performance that trigger desired rewards. If employees use misconduct to achieve higher levels of performance, then performance contingent compensation systems may unwittingly reinforce misconduct. As Jansen and Von Glinow (1985) suggest, incentive pay may lead to instances of employee misconduct. This seems to be compatible with others who have linked incentive pay to misconduct (Church, Gaa, Nainar, & Shehata, 2005). Studies that report links between incentive pay and misconduct have not given specific details about the flawed features of the incentive pay policies. Some companies use pay incentives and have few problems with misconduct, while others use pay incentives and report incidents of misconduct. These mixed findings suggest that perhaps certain forms of performance contingent compensation may be more likely to influence misconduct than others so that the overall use of pay incentive systems should not be condemned.

One of the basic design features of performance contingent compensation is the proportion of individual pay incentives to base pay. In most cases individual pay incentives are administered on an *ex ante* basis so that the employees anticipate the reward in advance. A bonus in the range of 10 to 15% of annual base salary is large enough to provide a motive for misconduct (Lazear, 2000; McAdams & Hawke, 1994; Varadarajan & Futrell, 1984; Krefting & Mahoney, 1977). A pay incentive of this magnitude would represent a six to ten thousand dollar payoff for an employee with an annual salary of 60 thousand dollars. Assuming that the compensation system emphasizes performance contingent incentive pay, then the perceived benefits of misconduct (if it leads to performance gains) are likely to increase. Individual incentive plans focus an employee's attention on individual behaviors that trigger rewards. This can focus individual efforts on self-serving behaviors that may produce wealth for the individual at the expense of the organization or other parties. Incentive pay plans may also distract an employee's attention on how they achieve their performance goals which may lead to unintentional violations of a company code of ethics or norms of professional conduct. A well known example of the unintended consequences of individual performance contingent pay occurred when Sears Roebuck lowered hourly wages of its auto mechanics and put them on a commission pay plan that required that they generate a quota of $147 per hour of auto repair work from customers. Consequently, Sears auto mechanics over-billed customers for unneeded parts and services which ultimately led to a class action legal suit on behalf of overcharged customers and damaged the reputation of the company (Applegate, 1992).

On the other hand, employers that only offer base pay with modest levels of individual performance contingent pay are not as likely to have employees engaged in misconduct. For example, managers at Continental Airlines give out $50 "spot cash" rewards when they discover an employee doing good work such as pleasing a customer and doing more than is expected on the job. A spot cash reward is a small amount of cash allocated to an employee on an *ex post* basis and paid out immediately. Logically, with a modest sized pay incentive there are fewer benefits to be gained from misconduct and only the potential downside risks of being caught. While there are likely to be significant individual variations in the amount of perceived gain that it takes to make misconduct attractive, the greater the size of the performance based reward relative to the base pay, the greater the likelihood of misconduct.

Proposition 1. *The greater the proportion of performance contingent individual incentive compensation in relation to base pay, the greater the likelihood of misconduct.*

Even within individual incentive plans, there are different design features that could lead to a higher or lower likelihood of employee misconduct. In particular, individual pay incentives may be continuous or discontinuous. Continuous incentives mean that the level of performance and the amount of the incentive are directly linked. Continuous incentives are on a continuous reinforcement schedule. Sales commissions and piecework used in manufacturing environments are the most well known examples of continuous pay incentives. Discontinuous individual pay incentives occur when incentives are linked to a platform of performance such as a quota. The incentive is given when the platform of performance is attained. If the platform or quota is not attained (regardless of the distance from the platform) no incentive is provided to an employee. Thus, the incentive pay is earned on an "all or nothing" basis.

While both types of incentives may make the perceived benefits of misconduct more attractive, discontinuous incentives are likely to increase the likelihood of employee misconduct more than continuous incentives. The central point is that as one gets closer to the platform of performance, there may be increasing attraction to engage in misconduct in order to attain the desired level of performance.

Furthermore, the size of a bonus can make a relatively minor form of misconduct seem plausible. However, misconduct may be seen as a slippery slope. Once one has benefited from a relatively minor or trivial form of misconduct, then one may consider performing a more serious form of misconduct in order to attain a performance hurdle at a later period of time. It is analogous to going from telling a small lie to the boss and getting away with a minor infraction such as tardiness to fabricating a bigger lie to give to the supervisor in order to get away with a gross violation such as stealing company property.

Moreover, one common problem in the sales domain happens when sales representatives are given a sales quota based on sales revenues that are measured over a period of time such as a quarter during the business cycle. Meeting or exceeding the sales quota triggers a performance bonus. However, due to the variability of the business cycle, client purchases are asymmetrical and depend on their economic prosperity as a precursor to buying a product such as a capital good. Sales representatives are often tempted to buffer their booked sales revenues by withholding sales in excess of a quota and reporting the sale in a future period in order to smooth out their potential for earning quarterly bonuses. These poorly timed sales bookings can result in inaccurate aggregate sales performance data reported to shareholders and the investment community who may under- or over-value the stock based on false growth and revenue information.

In contrast, the incremental gain for misconduct should be less for continuous incentives. This seems to be supported by research that suggests that employees who fail to achieve their discontinuous goals by a small margin are more likely to engage in misconduct (Schweitzer, Ordonez, & Douma, 2004).

Proposition 2. *Discontinuous incentives are likely to increase the likelihood of misconduct in comparison to continuous incentives.*

It is important to understand that reward systems influence organizational dynamics as well as individual behavior since rewards can strengthen (or weaken) organization culture. In this situation, we view reward systems to be linked with symbolic legitimation of misconduct. To convey this point, we need to digress into legitimation.

Legitimation is concerned with the social construction of desired or appropriate actions within an organization (Suchman, 1995). This perspective implies that what can be labeled as misconduct (in this case inappropriate actions) is socially constructed to be desired.

A second point is that legitimation is frequently seen as a means to justify actions (Dutton & Dukerich, 1991; Galang, Elsik, & Russ, 1999). That is, people act or are about to act and wish to couch their actions with the organization's support. Thus, a common justification for misconduct is that a supervisor endorsed it. If a supervisor approves an action, the checks and balances within a system are likely to symbolically convey legitimacy to the misconduct. Reward systems that are under control of management convey an explicit managerial support of misconduct if misconduct leads to organizational rewards.

This suggests that individuals who commit an act of misconduct may justify their actions for the “good of the organization.” They are likely to rely on reward systems as a symbolic means to rationalize the appropriateness of misconduct. The opportunity to justify one's actions for the “good of the organization” is likely to increase the viability of misconduct. Incentive systems can be used to socially construct managerial support of misconduct.

Proposition 3. *The greater the proportion of incentive pay to base pay and the use of discontinuous incentives are likely to convey legitimacy of misconduct to increase the perceived acceptability of misconduct.*

3.2. Performance appraisal practices and misconduct

Performance management systems include HR practices tied to performance appraisal and compensation. Performance appraisal is a part of the performance management system because it first specifies performance standards and then assesses employees against those performance standards. Many administrative decisions are fully or partially determined by the performance evaluation. These decisions have a direct bearing on an employee's job security, future employment opportunities, status, and pay within an organization.

Performance appraisal is most closely linked to deterrence of misconduct. Fear of being caught and disciplined can be an important deterrent of misconduct in organizations (Chiou, Huang, & Lee, 2005; Manrique de Lara, 2006). Performance appraisal systems commonly entail supervisory monitoring of employee performance. Thus, supervisors may play an important role in influencing employees' perceptions of the cost of engaging in misconduct. However, there is often information asymmetry in performance appraisal as a supervisor has less information about employee performance than employees themselves (Aguinis, 2007). Thus, it is possible for employees to hide aspects of their performance from their supervisors.

There are likely to be many reasons for the performance information asymmetry. Supervisors may not be motivated to search for misconduct as supervisory monitoring of employee behavior may be perceived negatively as micromanaging by subordinates and undermine the quality of supervisor–subordinate relationships. To some extent close monitoring also conflicts with employee empowerment efforts. Supervisors may also have difficulties monitoring performance as spans of control have increased in many organizations due to mergers, acquisitions, and the use of electronic communication technologies that permit supervisors and subordinates to operate in different geographical locations. Regardless of the reasons for information asymmetry, greater information asymmetry reduces employee perceptions of being caught and disciplined for misconduct. From a rational choice perspective, this would be tied to perceived costs of misconduct. Thus, it is important to discern how HR practices influence information asymmetry.

As per Fig. 1, one of the ways to classify performance appraisal practices is based on the criteria used to assess job performance. Kowtha (1997) suggests that performance appraisal systems may be classified as either behavior based or outcome based performance appraisal systems. Behavior based systems are concerned with evaluating employees based on the way they do their jobs. It may include contextual job performance or it may include general work processes. Thus, propensity to cooperate with others, product knowledge, or behaviors listed in a job description would be examples of criteria used in behavior based performance appraisal. Behavior observation scales and behaviorally anchored rating scales are representative of methods used within behavior based performance systems. The greater the frequency or quality of desired behaviors, the higher the rating.

Behavior based performance measures require that the source of the evaluative feedback have ample opportunity to observe the ratee and judge him or her fairly. Thus, a supervisor is given a motive to observe each subordinate's work behaviors in order to gather enough performance information to provide an evaluation of job behaviors for each subordinate. When supervisors are engaged in observing employee job behaviors and documenting examples of positive and negative job behavior, the employee perception of the cost of misconduct is likely to be high.

In contrast, outcome based performance appraisal systems are concerned with evaluating the outputs of job performance without taking employee job behaviors into consideration. Performance outcomes can be evaluated in terms of quantity as well as quality of performance. Thus, the amount of sales in dollars (quantitative) and level of customer satisfaction (qualitative) are examples of outcome based performance evaluation for a sales representative. Goal setting performance appraisal processes (Knight, Durham, & Locke, 2001) are types of outcome based performance appraisals. Management-by-objectives (MBO) is a popular example of outcome based performance appraisal that relies on a set of mutually agreed upon goals that become the criteria that an employee is judged on for purposes of performance evaluation. Outcome based performance evaluation systems are attractive to organizations that lack the opportunity to closely monitor the behaviors of employees when accurate behavioral performance data are not available. For example, store managers in a large supermarket chain can be evaluated by district managers on outcomes such as store revenues, employee safety record, and store profit margin. District managers may use these outcomes to evaluate store managers without traveling to each store to observe how the managers perform their jobs. Employees may also find outcome based performance systems attractive because they are given more discretion to achieve performance goals as they see fit.

It is our contention that outcome based performance appraisal systems are more prone to incidents of misconduct than behavior based performance appraisal systems due to the greater discretion given to employees to achieve performance outcomes that is linked with information asymmetry. With outcome based performance appraisal, less emphasis is placed on the means that employees use to achieve outcomes, and supervisors devote less time on monitoring employee behavior as a consequence. Thus, outcome based performance appraisal systems are associated with both perceived benefits of misconduct as goals become increasingly more difficult to achieve over time, and a perceived reduction in costs of misconduct, as employees are given more discretion to select their own means to achieve outcomes.

In terms of perceived costs of misconduct, outcome based performance appraisal offers inducements for employees to engage in misconduct for two reasons. First, outcome based performance appraisals give employees the freedom to decide how they wish to achieve the outcomes. This can be positive in that it may encourage employees to develop innovative strategies to meet the goals. However, in some cases these strategies may entail misconduct if employees have difficulties attaining the desired outcomes (Schweitzer, Ordonez, & Douma, 2004). If inappropriate means are successfully used to achieve the performance outcomes, then it could be relatively easy to incrementally cross over and engage in misconduct in order to achieve the outcomes. Thus, a financial broker may encourage customers with low tolerance for risk to purchase highly volatile stocks as opposed to more appropriate and less volatile conservative stocks to increase total sales or generate larger sales commissions. Volatile stocks may require more buying and selling activities timed to market movements that generate more frequent commissions for a broker and which reduce a client's investment returns. The outcome based performance criteria may encourage a financial broker to sell to clients a product they do not want in order to satisfy expected performance standards. The borderline between this illustration and churning accounts eventually becomes grey.

Managed health care companies have recently denied legitimate medical claims from customers who had to take the companies to court to receive a financial settlement for the medical costs that they expected to be covered. In court documents it was discovered that these medical insurance firms gave substantial financial bonuses to claims adjusters in their employment who were given quotas for rejecting claims based on total number of claims that were filed. The incentives were established to encourage claims adjusters to look for reasons to deny claims for medical coverage to a customer in order to generate higher profits. Initially this practice may have lead to some good decisions in denying claims; however, over time this practice is likely to lead to choices involving misconduct for personal gain.

Second, outcome based performance appraisal may put pressure on employees to take risks associated with misconduct by making it more rewarding to take those risks. With outcome based performance appraisal, there is a tendency for supervisors to expect continuous improvements in subordinate performance each year (Welch, 2001). If this tendency occurs, it is important to consider that the performance curve is asymptotic with relatively easy gains being realized initially, but as performance improves, the opportunity for gains decreases and requires a lot more effort. With the rising expectations, employees need to find ways to meet those increasing expectations. One of the ways to achieve those expectations occurs with misconduct. For example, Columbia HCA had expectations to increase hospital revenues over previous years. This practice appears to have motivated some general managers to engage in Medicaid and Medicare fraud as it became more difficult to meet the rising performance outcome expectations.

Outcome based performance appraisal is also likely to minimize the perceived costs of employee misconduct as its focus on outcomes reduces the chances of being caught. Outcome based performance appraisal is saturated with performance information asymmetry. It appears to be more commonly used when supervisors have fewer opportunities to directly observe behaviors (Tremblay, Cote, & Balkin, 2003). Outcome based performance appraisals have supervisors focusing on data associated with the outcomes of performance rather than the way performance was attained. While a supervisor could hypothetically gather behavior based performance, there could be high transaction costs associated with monitoring each employee's behavior which would be a deterrent to gathering behavioral information. In other words, as long as the outcomes are being met, the supervisor may be unaware of the methods used by an employee to achieve those outcomes. Thus, an employee knows what is done to achieve the ends but the supervisor is not informed. Information asymmetry provides fertile conditions for an agency problem, and tempts an employee to behave in opportunistic ways that can lead to misconduct. When employee behavior is not monitored employees are likely to lower their expectations that they will be caught for misconduct. Thus, employees with outcome based performance evaluations are likely to perceive reduced costs of misconduct.

In contrast, behavior based performance evaluations should be less prone to instances of employee misconduct. They are intended to promote consistency in prescribed behavior. Employees are likely to be motivated to engage in the socially appropriate prescribed behaviors that are valued by the organization. Furthermore, to assess performance, supervisors are expected to actually observe employees at work and keep records of these work observations. This heightened supervisory vigilance is likely to minimize information asymmetry.

Proposition 4. *Organizations that use outcome based performance evaluations are likely to have employees who perceive higher benefits of misconduct and lower perceived costs of misconduct, compared to organizations that use behavior based performance evaluations.*

A second HR configuration of performance appraisal that can have misconduct implications is derived from the interdependence that often occurs between supervisory and subordinate performance outcomes. Since there are different types of performance appraisal systems used for different hierarchical levels within a firm, this structural issue suggests that it is important to integrate supervisory and subordinate performance standards to ensure a continuity of goals across levels in an organization (Kaplan & Norton, 2001). This alignment may entail an aggregation of subordinate performance outcomes as an indicator of supervisor performance outcomes. However, this continuity in goals has the potential for supervisory conflict of interest, especially with outcome measurements. If a high performing employee is engaging in misconduct to achieve that high level of performance outcomes, and if subordinate performance directly and materially contributes to supervisory performance, then the supervisor has a potential conflict of interest in terms of addressing the misconduct. If a supervisor investigates the problem and corrects the misconduct, then that supervisor's performance is likely to be reduced. To some extent, this interdependence between supervisor and subordinate performance may undermine supervisory motivation to investigate subordinates who engage in misconduct. Misconduct may lead to higher levels of subordinate performance and ultimately benefit the supervisor's performance rating. A supervisor's self-interest for achieving high performance ratings is likely to diminish a supervisor's motivation to punish misconduct and is likely to reduce an employee's perceived risks of misconduct as the supervisor may provide tacit or in some cases direct support for misconduct.

Proposition 5. *When a supervisor and subordinate's performance outcomes are closely linked, a subordinate's perception of perceived risk of engaging in misconduct is reduced.*

A third aspect of the performance appraisal function addresses the types of people involved in performance assessment. The wide diffusion of the practice of three hundred sixty degree performance appraisal has encouraged employers to consider using multiple raters of performance that can include peers, other managers besides the supervisor, subordinates, and customers (Aguinis, 2007). It acknowledges that there may be information asymmetry between the supervisor and the subordinate since supervisors have limited opportunities to observe subordinates in many work environments and may not understand the technical aspects of the job they are expected to supervise. In order to manage this gap in a supervisor's knowledge of what a subordinate does on the job, it is important to gather performance assessment information from those who can most closely observe a subordinate's performance as well as understand the job itself. For example, customers or peers are likely to have direct and sometimes regular contact with a target employee. Gathering inputs from more than one source is likely to reduce the job performance information gap in comparison to relying on only the supervisor to gather information about job performance. While three hundred sixty degree performance appraisal has its limitations, by having more people observing and monitoring behavior that can reveal instances of misconduct, this practice is more likely to increase an employee's fear of being caught. For example, trucking firms often have 800 telephone numbers displayed on the back of the truck so that other drivers can report some type of driving misconduct. This means that employees being monitored by multiple raters should be aware that they are more likely to be exposed for committing misconduct. By including peers and customers and other observers as sources of feedback in the performance appraisal process an employee is likely to have a heightened sense of fear of being caught in an act of misconduct which raises the perceived costs of misconduct to them.

Proposition 6. *The more performance appraisal assessments are gathered from multiple and diverse sources, the greater will be an employee's perceived costs of engaging in misconduct.*

4. Discussion

In summary, we link rational choice theory and the architecture of HR performance management systems as factors that shape organizational routines associated with misconduct. In particular, we suggest that performance appraisals that (1) are outcome based, (2) have supervisors' performance closely linked to subordinate performance, and (3) rely exclusively on a supervisor as the source of assessments of subordinate performance are more likely to provide an impetus for employee misconduct.

Acknowledgments

The research work of David Balkin has been funded by an AGAUR grant # (2008PIV 0083) with the support of the Commission for Universities and Research of the Ministry of Innovation, Universities and Enterprise of the Government of Catalonia while he was a visiting scholar at the Institute of Labor Studies at IEL/ESADE in Barcelona, Spain.

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