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Introduction

The Association of Certified Fraud Examiners (ACFE 2016, 6) defines occupational fraud as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets." In this study, we investigate how managers respond to occupational fraud, considering differences in the treatment of star employees versus average employees. Further, and reflecting the primary focus of the study, we examine the consequences for management control systems when an average employee subsequently commits occupational fraud after top management has previously tolerated/not tolerated a star employee's similar behavior.

Call, Nyberg, and Thatcher (2015, 623) define a star employee as one who "…exhibit(s) disproportionately high and prolonged (1) performance, (2) visibility, and (3) relevant social capital." Thus, star employees are employees who bring a material amount of value to a company. Under this definition, a star employee may work in any area of a firm, including: the executive suite, sales, operations, finance, or supply-chain management, or may lead a group that contributes a material amount of value to a firm.

Research has reported that a certain type of star employee (top-producing salespeople) is treated differently than lower-producing salespeople because of the perceived benefit derived from the performance of top-producing salespeople (Bellizzi and Hasty, 2003). Thus, the esteem in which sales star employees are sometimes held gives them the unique ability to engage in pro-company unethical acts (e.g., to make a sale) if they desire to do so (Bellizzi, 2006; Bellizzi and Bristol, 2005; Bellizzi and Hasty, 2003). The sales star employee's unethical behavior may be tolerated by managers because the benefits derived from the star employee's activities outweigh the costs of the behavior. There are also circumstances where managers will tolerate unethical behavior because they fear the possible consequences if the unethical act is exposed, such as loss of job security, income, or promotion (Bellizzi and Bristol, 2005; Bellizzi and Hasty, 2003).

Previous research has focused on sales star employees who commit pro-company unethical acts—acts designed to help make a sale. In this study, we examine occupational fraud (i.e., anti-company behavior) perpetrated by an operations team leader (Experiment 1) and a warehouse manager (Experiment 2); employees outside of the sales realm. In this manner, we shift the focus of this line of research from "corrupt organizations," where the organization is the beneficiary of the unethical act, to "organizations of corrupt individuals," who personally benefit from their unethical acts (Pinto, Leana, and Pil, 2008). Thus, we seek to draw broader conclusions related to management control systems and the impact of the tone at the top than are possible when examining pro-company unethical actions within the sales function.

Experiment 1 sets the stage for Experiment 2 by contributing to our understanding of manager decisions for occupational fraud committed by star employees. Specifically, using Mitchell and Wood's (1980) causal attribution model to develop our hypotheses, we examine in the first experiment whether non-sales star employees are permitted to engage in more occupational fraud than average employees. We also investigate whether the magnitude of the act and the interaction of the type of employee and the magnitude of the act have an effect on a manager's handling of such acts. Using a 2x2 (star employee or average employee, and small or large act) between-subjects experiment administered to 119 managers,

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Experiment 1 indicates that participants perceive that most managers they have worked with treat star employees more leniently than average employees.[1]

Experiment 2, our primary focus, is motivated by the high costs of a poor ethical tone that is tolerant of occupational fraud (ACFE, 2016; CAQ, 2010; NCFFR, 1987) and harmful to an organization's management control systems. Trompeter, Carpenter, Jones, and Riley (2014, 786) indicate that accounting researchers should "…refine the examinations of leadership and tone at the top in the contexts of poor ethical decision making" and investigate how "specific changes in tone at the top" affect employee ethical decision-making. Further, Davis and Pesch (2013) model the spread of organizational fraud and call for more research on the effects of such elements as fairness, disciplinary actions, and fraud magnitude. We seek to begin to respond to these calls in the accounting literature for more research in this area.

Prior research has reported that tolerating unethical behavior from one employee affects the ethical decisions that other employees make (Ashkanasy, Windsor, and Treviño, 2006).[2] Painter-Morland (2006) argues that employees' tacit knowledge of tolerated unethical acts may lead to tacit collusion, where employees feel pressure to adhere to the firm's unofficial ethical rules as opposed to the official code of ethics. To our knowledge, there has been no prior accounting research that has investigated how stakeholder tolerance of occupational fraud by a star employee affects a manager's tolerance and discipline intensity decisions for subsequent acts perpetrated by an average employee. Using a second 2x2 (star employee's prior occupational fraud tolerated or not tolerated, and small or large act) between-subjects experiment administered to 108 managers who did not take part in the first experiment. Experiment 2 provides evidence that managers are more lenient with an average employee when a star employee has been able to get away with a similar act previously, thus weakening management control systems.

Overall, we find evidence suggesting that treating star employees more leniently than average employees can lead to future leniency for average employees as well, which may serve to spread occupational fraud throughout the organization; potentially sending a negative signal about the organization's tone at the top. Thus, management control systems are weakened when an organization selectively overrides internal controls for star employees.

The next section presents Experiment 1, followed by a separate section presenting Experiment 2. The final section presents our conclusions and develops implications and avenues for future research.

Experiment 1: Theory—Causal Attribution: Leader's Response to Subordinate Poor Behavior

Attribution theory deals with the causal attributions an individual use to determine why someone has behaved in a certain way and what is done with this information (Kelley, 1973). Using causal attribution theory as the foundation of their theory-building article, Mitchell and Wood (1980) developed a model for analyzing a leader's diagnosis and response to an employee's poor performance. As shown in Figure 1, this model includes six primary factors that impact the disciplinary decision managers make in response to subordinate poor behavior.

The behavior and/or outcome factor in the model is the poor behavior exhibited by the employee (Mitchell and Wood, 1980). The factors that influence a manager's response to unethical behavior are: (1) situational and informational factors, (2) bias, (3) causal attributions [internal and external], (4) personal or organizational policies, (5) expectations for future performance, and (6) costs/benefits (Mitchell and Wood, 1980). [see Figure 1, pg 310]

Of particular relevance to the current study is the costs/benefits factor of Mitchell and Wood's (1980) model.[3] The cost/benefits factor is the costs associated with, and the benefit derived from, implementing a given response to a subordinate's poor behavior. Costs/benefits include the act being a pro-company unethical act (e.g., misrepresenting demand to a customer to gain a higher price from the customer) versus occupational fraud (e.g., an anti-company unethical act, such

[1] Below, we discuss the presence of social desirability bias in certain responses and thus our focus on what most managers would do in the Experiment 1 case setting, as opposed to what the participant would do.

[2] Further, research in auditing finds that employee behavior is influenced by the tone set by the organization's culture. Carpenter and Reimers (2013) found that the level of professional skepticism exhibited by audit managers was influenced by an audit partner's high or low emphasis on professional skepticism. Pickerd, Summers, and Wood (2015) reported that the ethical behavior of lower-level staff accountants in public accounting is contingent upon the ethical tone of both the partner and the front-line supervisor.

[3] In the interest of parsimony and because our manipulations are expected to affect only the costs/benefits factor in the model, we do not include a discussion of all the factors in Mitchell and Wood's (1980) causal attribution model. For a complete discussion of the other factors in the model see Mitchell and Wood (1980).

as asset misappropriation) and organizational consequences (e.g., loss of a customer, regulatory and legal consequences) (DeConinck, 1992; Bellizzi, 2006). The costs/benefits factor can be influenced by the consequences for the manager making the disciplinary decision, such as affecting the manager's current and future income, future promotions, and job security (Bellizzi and Hasty, 2003; Bellizzi and Bristol, 2005). We argue that a manager would weigh the costs/benefits of the subordinate's occupational fraud before deciding on a response.

Hypotheses

Research supports the premise that managers often tolerate unethical behavior perpetrated by sales star employees (Bellizzi and Bristol, 2005; Bellizzi and Hasty, 2003; Marchetti 1997). In particular, this literature shows that sales managers tolerate unethical behavior because the perceived benefits to the company and to the sales manager derived from the star employees' activities outweigh the costs (Bellizzi and Bristol, 2005; Bellizzi and Hasty, 2003; Hoogervorst, De Cremer, and van Dijke, 2010; Hunt and Vasquez-Parraga, 1993). Tolerance of star employee behavior has been linked to the sales manager seeking to avoid the loss of talent and sales to competitors, as well as efforts to maintain the sales manager's income, continued employment, and promotion opportunities (Bellizzi and Bristol, 2005).[4]

Experiment 1 of this study extends existing literature by moving beyond the sales manager-salesperson relationship and pro-company unethical acts to non-sales star employees and occupational fraud. We examine whether managers in general are more tolerant of occupational fraud from star employees than they are of similar acts exhibited by average employees. In a manager-star employee relationship, the manager may tolerate occupational fraud because of the benefit the manager receives when the manager's bonus is significantly affected in the future by the star employee's activities.[5] This argument is supported theoretically by Mitchell and Wood's (1980) causal attribution model.

Mitchell and Wood (1980) posit that after the initial causal attribution is made, the manager must weigh the costs/benefits associated with the manager's response before making a final decision on how to respond to the unethical behavior. The star employee has the status of being an employee who brings substantial value to the company, and the average employee brings adequate value to the company. The benefit associated with tolerating the star employee's occupational fraud is the expectation that the star employee will continue to significantly contribute to the manager's bonus in the future. One cost associated with tolerating either the star employee's or the average employee's occupational fraud is that similar behavior may be perpetrated in the future by the employee if the act is tolerated or if the employee is not disciplined. Specifically, lower- and middle-level managers' discipline/tolerance responses are likely influenced by the actual ethical climate of the firm, as opposed to the officially promulgated ethical tone that may be promoted by the organization to the public and employees by senior executives (Ashforth and Anand, 2003). Thus, tolerating star employees' fraudulent actions may serve to signal a firm's weak tone at the top. When this occurs, the firm's management control systems are made less effective, and it is likely that management controls will be overridden in the future as employees engage in similar acts (this is directly addressed in Experiment 2). Other costs of tolerating occupational fraud include direct financial losses by the company, as well as the manager's risk of being sanctioned for tolerating the act.

As a result of the manager's consideration of the costs/benefits factor, the manager's response may be to tolerate the star employee's occupational fraud due to the high benefits (i.e., greater personal bonuses in the future), thus administering lower discipline intensity than would be administered to an average employee. For the average employee, the manager's response may be to have less tolerance and to administer a higher level of discipline intensity than would be administered to the star employee, as the manager will not receive much direct benefit from the average employee. This example demonstrates how a manager could have two different tolerance/discipline intensity responses for the same fraudulent behavior exhibited by a star employee versus an average employee, as the two employees will have different effects on the manager's bonus in future periods.

[4] Research also has found that organizational identification and reciprocity beliefs are associated with pro-company unethical acts (Umphress, Bingham, and Mitchell, 2010). Further, Kennedy and Anderson (2017) report that higher-rank individuals are more likely to view unethical group behavior as ethical than are those with a lower rank.

[5] Bellizzi (2006) speculated that sales managers were tolerant of unethical behavior in top producing salespeople because the practicing sales managers know from experience that they would be directly benefiting from the salespersons' activities through either a bonus or commission. In order to perform a similar study to Bellizzi (2006), Bellizzi and Bristol (2005), and Bellizzi and Hasty (2003), we chose to explicitly explain in the instrument that the non-sales employee's activities either materially contributed or did not materially contribute to the manager's bonus.

In our first hypothesis, we expect that star employees will receive less discipline intensity and more tolerance for occupational fraud than average employees who perpetrate the same act. Based on the discussion above, we present the following directional hypothesis:

> **H1:** Managers will administer less intense discipline for, and will be more tolerant of, star employees' occupational fraud than average employees' occupational fraud.

The next factor in this study concerns the magnitude of the fraudulent act. The present study focuses on misappropriating company funds for personal use, i.e., improperly charging personal expenses on a company credit card. A smaller act of misappropriation ($500 or less) would be considered a misdemeanor, while a misappropriation of $501 or more would increase the crime to a felony (Scheb, 2014).

The costs/benefits associated with a larger fraudulent act are different from those associated with a smaller act. Specifically, the higher magnitude associated with a larger act results in greater negative consequences for both the company and the manager if a tolerated act is exposed. This is expected to cause the manager to make a different discipline intensity decision for a larger act than for a smaller act.

When the personal expense is large, the cost of tolerating the act becomes large, as the employee has committed a large theft from the company and the manager's tolerance of the act seemingly condones material theft. Thus, the manager knows that to protect the company and herself, higher discipline intensity must be administered. As a result, the star employee and average employee likely receive greater discipline/less tolerance when the act is large because the higher cost of tolerating the act begins to outweigh the benefits gained by allowing either a star employee or average employee to engage in the act. Likewise, the effect of the magnitude, or moral intensity, of an act in business is supported by research (Cohen and Bennie, 2006).[6]

This example demonstrates how the tolerance and the discipline intensity administered can vary based on the magnitude of the fraudulent act perpetrated by the subordinate. We predict that a smaller magnitude act will result in more tolerance (less discipline) from a manager than a larger act, regardless of the type of employee engaging in the act. Expressed formally as a hypothesis:

> **H2:** Manager discipline intensity increases and tolerance for occupational fraud decreases as the magnitude of the act increases.

The final factor considered in Experiment 1 is the interaction of the type of employee and the magnitude of the act. DeConinck (1992) reported that there were differences between the discipline given to a low-producer as opposed to a top-producer regardless of the consequences to the company. Bellizzi (2006) reported that under both serious and less serious consequences to the company the top-producing salesperson received less severe discipline than the low-producer did and observed that the results "...further demonstrate the seeming advantages of being a top sales performer" (196).

The literature discussed thus far indicates that top-producing salespeople are treated more leniently for unethical behavior regardless of the magnitude of the act or the consequences to the organization for the unethical act (i.e., no interaction). However, these findings may be the result of the pro-company unethical behaviors used in those studies; specifically, the salespeople typically are engaged in questionable acts in order to sell more of the product to customers, which is beneficial to the company and to the sales manager (Bellizzi and Bristol, 2005; Bellizzi and Hasty, 2003; DeConinck, 1992).

We argue above that managers in general are influenced by both the type of employee being disciplined (H1) and the magnitude of the fraudulent act (H2). However, as the magnitude of the act increases, the discipline intensity and tolerance responses are expected to become similar for both the star employee and the average employee. In essence, if the act becomes large enough, even a star employee will not be able to escape discipline. Specifically, the costs/benefits factor of Mitchell and Wood's (1980) model would likely cause a manager to evaluate the consequences to both the manager and

[6] Moral intensity, from the issue-contingent factor theory model, is one of several theoretical models that support the premise that the magnitude of the act impacts the costs/benefits decision a manager makes. Moral intensity's effect on ethical decision-making has been supported by literature from a variety of academic disciplines (see Arnold, Dorminey, Neidermeyer, and Neidermeyer, 2013; Arel, Beaudoin, and Cianci, 2012; Cohen and Bennie, 2006; Coram, Glavovic, Ng, and Woodliff, 2008; Singhapakdi, Vitell, and Kraft, 1996). For simplicity, we build our predictions using the causal attribution model, but we recognize that moral intensity from the issue-contingent factor theory model yields similar predictions.

company if the manager is discovered to have exhibited greater tolerance for a larger fraudulent act. Thus, we predict that the tolerance and discipline intensity administered by a manager will become similar for both.

H3: As the magnitude of the fraudulent act increases, manager discipline intensity star employee and average employee as the magnitude of the act increases. Stated formally: (tolerance) for both star employees and average employees increases (decreases), such that the discipline intensity and manager tolerance response will become more similar for star employees and average employees (an interaction between employee type and act magnitude).

Method

Participants

We collected the data from participants who had earned at least a bachelor degree and had at least one year of professional management experience.[7] We obtained the sample through Amazon's Mechanical TURK (MTURK) marketplace as a Human Intelligence Task (HIT), which is a service that matches projects with participants who have shown a willingness to participate in online studies. Brandon, Long, Loraas, Mueller-Phillips, and Vansant (2014) posit that MTURK is comparable to Qualtrics Research Panel service and Survey Monkey audience recruitment services.[8]

The participants first took a screening instrument administered online with Qualtrics. The screening instrument was developed to screen participants on three criteria: (1) the participant's attention to the task,[9] (2) education, and (3) management experience.

The HIT was listed in the MTURK marketplace under the heading "Qualification for $2.50 Academic Survey on Managerial Decision Making", and the HIT was only open to individuals living in the United States.[10] A total of 960 participants took the screening instrument in Qualtrics. Of the 960 participants who took the screening instrument, 327 exceeded the cut scores for the inattention scale,[11] 749 indicated they had at least one year of management experience, and 562 reported that they had earned at least a bachelor degree. The average time to complete the screening instrument was 8.44 minutes. One hundred fifty-six participants passed all three criteria of the screening instrument and were invited to participate in the main study.

Experimental Case Study and Independent Variables

Experiment 1 employs a case that is influenced by Bellizzi and Bristol (2005) and a questionnaire to determine whether star employees are permitted to engage in more occupational fraud than average employees in organizations and whether this effect varies with the magnitude of the act. The case in this study asks the participant to assume the role of an operations manager at a specialty printing company who is required to make a disciplinary decision concerning Chris, a team leader

[7] Research from multiple disciplines has reported that students may not be adequate surrogates for businesspeople in business behavioral research (Burnett and Dunne, 1986; Copeland *et al*., 1973; Hughes and Gibson ,1991). Shields *et al*., (1981) reported that participants with real work experience are more attuned than undergraduates to the factors that affect workplace performance and decisions. The participants in their study had a mean age of thirty-one years and a mean of five years of work experience. The mean age for Experiment 1 participants is 36.86 years, with a mean of 5.19 years of professional management experience. Additionally, 88.2 percent of the participants in Experiment 1 had witnessed a small ethics violation as a manager, 58.8 percent had reprimanded someone they managed for an ethics violation, and 49.6 percent had observed one category of employee receive less severe punishment than other employees for the same violation. Thus, the participants in Experiment 1 have the requisite professional experience necessary to make the ethical discipline/tolerance decisions requested in the experimental case instrument.

[8] Berinsky, Huber, and Lenz (2012) reported relatively small differences between U.S. MTURK respondents and the general U.S. population. Paolacci, Chandler, and Ipeirotis (2010) support the use of MTURK in behavioral research by observing that MTURK participants "…exhibit the classic heuristics and biases and pay attention to directions at least as much as subjects from traditional sources" (417). Ferrell, Grenier, and Leiby (2017) report that online workers are acceptable proxies for non-expert decision-makers.

[9] One of the possible disadvantages associated with recruiting participants from MTURK service is lack of participant effort in the experiment (Paolacci *et al*., 2010). The authors suggest utilizing a non-experimental task to screen participants' effort. We utilized the Attentive Responding Scale 33 (ARS-33) developed by Maniaci and Rogge (2014). They report that the use of the ARS-33 increased the statistical power of a sample and is effective in identifying potentially problematic participants.

[10] The MTURK service allows researchers to limit the eligible workers for the HIT to MTURK workers living inside the United States.

[11] This study used the ARS-33 scale cut scores recommended by Maniaci and Rogge (2014).

the operations manager supervises. The operations manager has discovered that Chris has made an inappropriate personal charge for jewelry on a company credit card.

There are two manipulated independent variables in the experiment. The first independent variable addresses H1, which is the classification of the perpetrator as a star employee or average employee. The star employee is described as a team leader who is a "star employee" who brings substantial value to the company and whose leadership substantially increased the operation manager's annual bonus the previous five years. The average employee is described as a team leader who is an "average employee" who brings adequate value to the company and whose leadership did not directly contribute to the operation manager's bonus the previous five years.

The second manipulated independent variable in the study addresses H2, which is the magnitude of the fraudulent act, larger ($5,000 unapproved credit card transaction for a personal purchase from an online jewelry store) or smaller ($500 unauthorized credit card transaction for a purchase from an online jewelry store).[12] Finally, the interaction of employee type and magnitude of the act addresses H3.

Dependent Variables

The experimental instrument asks about how the participants themselves would act in the experimental setting (a series of questions to examine how they would personally respond and how various factors influenced their decision), as well as two subsequent questions about how most managers they have worked with would act.[13] The *Most Managers* questions were included in the event we encountered social desirability bias. Social desirability bias (SBD) occurs when participants respond to an ethical question in a more socially acceptable manner than the action they would actually take in practice, and SDB has been found to affect self-reporting responses of participants in business ethics research (Bellizzi and Bristol, 2005; Cohen and Pant, 1998; Cohen, Pant, and Sharp, 2001). We tested for SDB in the responses by comparing the means for the most manager dependent variables to the corresponding self-reporting dependent variables (Cohen, Holder-Webb, Sharp, and Pant, 2007). We found evidence of significant SDB in both the discipline and tolerance responses (see wording below). Specifically, the participants indicated that they would administer more stringent discipline ($p = 0.014$) and be less tolerant of the fraudulent act ($p = 0.019$) than would most managers they worked with. Tougher discipline and less tolerance reflect more socially acceptable responses. Further, regarding the type of employee, the SDB is found only in the star employee conditions ($p = 0.008$ in both cases), not in the average employee conditions ($p > 0.500$).

Based on the evidence of SDB and its concentration in the star employee condition (our test condition), we focus our analysis of Experiment 1 on the *Most Managers* dependent variables. Thus, the first dependent variable question is, "What do you think most managers you have worked with would do if confronted with the situation presented in this case?" (0 = "Do Nothing", 100 = "Terminate Chris"). This scale measures the discipline intensity response. The discipline intensity sliding scale used in this study is a modification of Hunt and Vasquez-Parraga's (1993) sales manager's reaction to unethical salesperson behavior scale that was developed to gauge the intensity of discipline a sales manager would administer to a salesperson for unethical selling behavior. The second dependent variable question is, "How likely would it be that most managers you have worked with would tolerate Chris's violation of company policy?" (0 = "Not Likely", 100 = "Very Likely"). This scale measures the tolerance response.

Results

Manipulation Checks and Completion Time

One hundred fifty-three of the 156 invited participants took the main experimental case instrument. One hundred forty of those invited completed the instrument. There were two manipulation check multiple choice questions in the instrument. One manipulation check concerned the type of employee, and the other was concerned with the magnitude of the fraudulent act. Of the 140 participants, 136 passed the employee type (star employee, average employee) manipulation check, 137 passed the magnitude of the act (smaller, larger) manipulation check, and 133 respondents passed both manipulation checks. We also lost participants who did not meet the minimum criteria (at least a bachelor degree, one year of professional

[12] We encourage future research with other measures of the act's magnitude.

[13] We acknowledge the design tradeoff/limitation of having participants evaluate the influence of various factors on their personal response before having them indicate how most managers would respond. While the consideration of these personal factors theoretically could affect the *Most Managers* responses, it also may have been awkward to have participants evaluate the influence of various factors on their personal response after they had also indicated how most managers would respond.

management experience, and living in the United States), to arrive at 119 participants in the final sample.[14] Excluding the three outliers (who apparently started the experiment one day and completed it on another day), the average time of completion for those who passed all criteria is 21.91 minutes (median of twenty minutes).

Participants' Perceptions of the Case

The respondents were asked to give their perceptions of case realism and understandability. The mean for realism of the case is 73.92 (standard deviation of 23.18) on a scale of 0 to 100 with 0 being "Unrealistic" and 100 being "Very Realistic." The mean for understanding of the case is 91.04 (standard deviation of 20.33) on a scale of 0 to 100 with 0 being "Difficult to Understand" and 100 being "Easy to Understand."[15]

Demographics

Table 1 presents demographic information about the 119 participants. Fifty-four percent of the participants were male, and seventy-two percent were age forty or younger. Most participants (sixty-seven percent) had five years or less of professional management experience. Most (seventy-seven percent) of the participants were employed full-time, were currently employed in low- or mid-level management positions (seventy-two percent) and were currently employed at a firm with greater than fifty-one employees (sixty-nine percent). Nearly half (forty-eight percent) of the participants currently worked for privately owned entities, twenty-two percent for publicly traded entities, and fourteen percent for not-for-profit entities. Nearly all of the participants had a bachelor degree (sixty-eight percent), some graduate education (ten percent), or a master/law degree (twenty percent). [see Table 1, pg 311]

MANOVA Results

The two *Most Managers* dependent variables (discipline and tolerance) are correlated ($r = -0.591$, $p < 0.001$), and as a result we first run a MANOVA model (significant at $p = 0.011$). The results in Table 2, Panel A reveal that both employee type and magnitude of the act are significant (each with $p \leq 0.025$), consistent with both H1 and H2.[16] [17] [18] The MANOVA reveals no evidence of an interaction between employee type and magnitude of the act ($p = 0.509$), inconsistent with H3. [see Table 2, pg 312]

ANOVA Results

ANOVAs were performed using the *Most Managers* dependent variables. The descriptive statistics for the *Most Managers* discipline intensity dependent variable, which asks, "What do you think most managers you have worked with would do if confronted with the situation presented in this case?" (0 = "Do Nothing", 100 = "Terminate Chris"), reveal that the means for the discipline intensity administered for a star employee (69.15) and an average employee (78.15) are significantly different ($p = 0.030$), consistent with H1. There is also a statistically significant difference between the means for a larger (79.61) and smaller (68.24) magnitude act ($p = 0.006$), consistent with H2.

In the ANOVA for the discipline dependent variable (see Panel B of Table 2), the overall model is significant at $p = 0.003$, as is the type of employee variable ($p = 0.013$, $F = 6.36$), lending support to H1.[19] This suggests that employee type is a

[14] No respondents failed the management experience requirement, twelve indicated that they did not have at least a bachelor degree, and two indicated they were not currently residing in the United States. The MANOVA results in Table 2 are similar if we include all respondents in the analysis ($n = 140$).

[15] Both realistic and understandable have means that are significantly greater than the scale midpoint of 50 ($p < 0.001$).

[16] Unless noted otherwise, all p-values in this study are two-tailed.

[17] When added one a time to the MANOVA models in Tables 2 and 3, key demographic variables (i.e., gender, age, management experience, full-time worker, company size, company type, and education) do not affect the primary results, except that magnitude of the act becomes insignificant in one case in Table 3.

[18] While the Breusch-Pagan test reveals no evidence of heteroskedasticity in the ANOVAs below ($p > 0.05$), the Levene's Test indicates evidence of heteroskedasticity in certain cases. As a sensitivity test, we use rank transformations of the dependent variables for the MANOVA and ANOVAs as recommended by Conover and Iman (1981). The MANOVA and ANOVA results with rank transformations are similar to those presented (except that in Table 2 Panel C, the magnitude of the act is significant ($p = 0.039$) when the rank transformation is used).

[19] The effect size is small for the type of employee (Cohen's $f = 0.235$) (Cohen, 1988). A small effect size has a Cohen's f greater than or equal to 0.10 and less than 0.25, a medium effect size is greater than or equal to 0.25 and less than 0.40, and a large effect size is greater than or equal to 0.40 (Cohen, 1988).

driving factor in responses to the discipline question. Thus, there is evidence that employee type is relevant to the discipline intensity decisions that most managers the participants have worked with make. This ANOVA also reveals that the magnitude of the act variable is statistically significant ($p = 0.003$, $F = 9.49$) which lends support to H2.[20] The interaction of the type of employee and magnitude of the act (H3) is not statistically significant ($p = 0.745$, $F = 0.11$) in the ANOVA, inconsistent with H3.

The descriptive statistics for the *Most Managers* tolerance of the act dependent variable, which asks, "How likely would it be that most managers you have worked with would tolerate Chris's violation of company policy?" (0 = "Not Likely", 100 = "Very Likely"), indicate that there is a statistically significant difference between the means for tolerance of a star employee (31.37) and an average employee (19.88; $p = 0.025$), consistent with H1. There is no statistical difference between the means for the large versus small act for this dependent variable (22.04 versus 28.84, respectively; $p = 0.188$), inconsistent with H2.

As shown in Panel C of Table 2, the ANOVA for the tolerance dependent variable reveals that the overall model is statistically significant ($p = 0.035$), as is the type of employee ($p = 0.019$, $F = 5.63$), lending support for H1.[21] Again, this provides evidence that occupational fraud committed by star employees will be treated differently by most managers the participants have worked with than the same acts committed by average employees. In this model, the magnitude of the act (H2) is not significant ($p = 0.119$, $F = 2.47$), inconsistent with H2. The interaction of the type of employee and the magnitude of the act (H3) is not statistically significant ($p = 0.267$, $F = 1.24$), inconsistent with H3.[22]

In summary, the ANOVA results for Experiment 1 support H1, that most managers the participants have worked with will likely administer less discipline intensity and be more tolerant of a star employee's occupational fraud than an average employee's similar act. We also find evidence that the magnitude of the act (H2) influences the discipline response most managers make, but not the tolerance response. We find no evidence to support an interaction between the type of employee and the magnitude of the act (H3), which is like the findings of sales manager literature (Bellizzi and Bristol, 2005; Bellizzi and Hasty, 2003; DeConinck, 1992).

Experiment 2: Hypotheses

In Experiment 2, we consider how managers respond to occupational fraud by an average employee, and how this varies depending on how a star employee was previously treated for the same offense (i.e., was the star properly disciplined?). Miceli, Near, Rehg, and Van Scotter (2012) observed that permitting an employee to engage in unethical behavior damages monitoring and reporting mechanisms that were put in place to discover and punish unethical behavior (i.e., management control systems). Ashkanasy *et al*., (2006) argue that when an employee observes unethical behavior being tolerated, it is likely that the employee may eventually participate in unethical tacit collusion by perpetrating similar unethical acts.

Furthermore, research has reported that tacit knowledge and tacit collusion are influential in employees' ethical behavior (Painter-Morland, 2006) and that a small number of deviant employees can influence the ethical behavior of a large number of employees (Dunlop and Lee, 2004). Ashforth and Anand (2003) report that company-wide corruption can start with one or a small group of employees behaving unethically, which then spreads throughout the organization until the corruption permeates the operations of the firm.

To our knowledge, accounting research has not addressed the impact that an executive selectively overriding management control systems to allow a star employee to perpetrate occupational fraud has on future manager discipline/tolerance responses when a similar act is perpetrated by an average employee. The current study examines the consequences of such a weak tone at the top.

[20] The magnitude of the act effect size is medium (Cohen's $f = 0.287$) (Cohen, 1988).
[21] The effect size for the type of employee is small (Cohen's $f = 0.221$) (Cohen, 1988).
[22] If we run the MANOVA and ANOVAs with the self-report (i.e., what the participants would do themselves) dependent variables (using ranks due to the presence of heteroskedasticity), employee type is insignificant in all three of the models ($p > 0.25$ in each case), while magnitude of the act is significant in all three models ($p < 0.01$ in each case). There is no evidence of an interaction between employee type and magnitude of the act. Also, if we attempt to control for SDB by adding a BIAS variable (the difference between each participant's self-report response and his/her *Most Managers* response; Cohen *et al*., 2007) to these self-report ANOVAs, employee type is marginally significant in the discipline ANOVA, but insignificant in the tolerance ANOVA.

Based on Mitchell and Wood's (1980) causal attribution model, the manager will weigh the costs/benefits associated when disciplining/tolerating occupational fraud perpetrated by an average employee when a stakeholder has previously tolerated a similar act perpetrated by a star employee. The anticipated benefit to disciplining the behavior from an average employee is that doing so may increase the likelihood that corporate policy will be adhered to in the future. The cost of this discipline is that employees will observe that stars and average employees are treated differently for the same fraudulent act, which is likely to appear quite unfair.

The manager will also weigh the costs and benefits of not disciplining the act. The benefit in this example would be the social reward of adhering to the organization's unwritten rules of conduct (i.e., tacit knowledge and tacit collusion), which would likely lead to greater comradeship with and cooperation from subordinates in the future. The cost of not disciplining the act is potential sanctioning by upper management for tolerating a bad act, but this cost is lowered when stars have been allowed to get away with the same act previously, as one could argue that a precedent was set.

After weighing the costs/benefits of the discipline decision, which appear to weigh in favor of tolerating the current act if a prior act has been tolerated, we expect that the manager's response to the average employee's fraudulent act will be to show greater tolerance and to administer a lower discipline intensity when a prior act perpetrated by a star employee has been tolerated. Put formally as a hypothesis:

> **H4:** Managers will be less likely to discipline and more likely to tolerate occupational fraud perpetrated by an average employee if a star employee has been permitted to engage in a similar act in the past than if such an act by a star employee has not been tolerated in the past.

We also predict that the magnitude of the act affects a manager's discipline/tolerance response, as explained above for H2. Specifically, we expect that a manager will exhibit greater discipline intensity and lower tolerance for a larger magnitude fraudulent act than a smaller act. The costs/benefits factor of Mitchel and Wood's (1980) model is different for a larger act because of the potential for the manager to receive significant discipline if a larger unreported act is discovered by stakeholders. As a result of the potential costs to the manager associated with a larger act, the manager is expected to administer greater discipline intensity for (and be less tolerant of) larger acts than smaller acts. Put formally as a hypothesis:

> **H5:** A manager's discipline for (tolerance of) occupational fraud by an average employee increases (decreases) as the magnitude of the act increases.

Additionally, as explained above for H3, we predict that there will be an interaction of prior act tolerance and the magnitude of the act where the manager's discipline/tolerance response becomes similar as the magnitude of the act increases. If the act becomes large, we expect that an average employee will not be able to escape discipline even if the act had been tolerated before when committed by a star. Put formally as hypothesis:

> **H6:** As the magnitude of the act increases, manager discipline (tolerance) for acts previously tolerated or not tolerated increases (decreases), such that the manager discipline (tolerance) response will become more similar for prior tolerance or non-tolerance (an interaction between star employee tolerance and act magnitude).

Method

Participants

We collected the data for Experiment 2 from a different set of participants than in Experiment 1. As with Experiment 1, the participants were required to have earned at a minimum a bachelor degree and have at least one year of professional management experience.[23] Such a sample is likely to include individuals who have made management control related decisions in a professional business environment and who have likely observed the effect that prior act tolerance/intolerance has on other employees within a business.

[23] The mean age for Experiment 2 participants is 43.85 years, with a mean of 10.44 years of professional management experience. Additionally, 81.5 percent of the participants in Experiment 2 had witnessed a small ethics violation as a manager, 74.1 percent had reprimanded someone they managed for an ethics violation, and 50.9 percent had observed one category of employee receive less severe punishment than other employees for the same violation. Accordingly, the participants in Experiment 2 have the professional experience necessary to make the ethical discipline/tolerance decisions requested in the experimental case instrument.

We obtained the sample for Experiment 2 using Qualtrics Research Panel service to recruit participants. Brandon *et al*., (2014) explain that Qualtrics Panel appoints a research project manager who is responsible for screening and obtaining participants in a study, which occurred in the current study. They also report that the Qualtrics Research Panel service's approach to panel recruitment helps researchers to obtain data while decreasing the number of participants who may possibly drop out of the experiment. In Experiment 2, the Qualtrics Research Panel project manager invited 145 participants to take the instrument, of whom 108 passed both manipulation checks and the minimum criteria of at least having earned a bachelor degree and one year of management experience. The average cost per participant in Experiment 2 was $17.66.

Experimental Case Study and Independent Variables

Experiment 2 uses a 2x2 between-subjects experimental design with two levels of prior star employee occupational fraud tolerance (tolerated or not tolerated) and two levels of act magnitude perpetrated by an average employee (smaller act, larger act).

The case used in this study is influenced by the case used by Bellizzi and Bristol (2005) in their supervising unethical selling behavior study, and the case instrument requires the participant to assume the role of a customer fulfillment manager for a remote-control airplane manufacturer who supervises seven warehouse managers. The customer fulfillment manager learns that Terry, a warehouse manager, made an improper charge to a warehouse expense account for a personal vehicle repair.

There are two independent variables in this study. The first independent variable is prior occupational fraud perpetrated by a star employee being tolerated or not tolerated by a stakeholder. In the case instrument, the CEO previously was informed by the customer fulfillment manager that a star employee warehouse manager had authorized a personal vehicle repair on a warehouse expense account. In response to that prior act, the CEO instructed the customer fulfillment manager to either discipline/not discipline the warehouse manager for the inappropriate charge. This independent variable addresses H4 and reflects whether a prior fraudulent act by a star employee had been tolerated or not. The second independent variable is the magnitude of the act (both the current act and the prior act), smaller ($500) or larger ($5,000), and it addresses H5. Lastly, the interaction of prior act tolerance and the magnitude of the act addresses H6.

Dependent Variables

Experiment 2 measures what the participant would do (as in Experiment 1, we ask a series of questions to examine how they would personally respond and how various factors influenced their decision), and subsequently what most managers the participant has worked with would do. In Experiment 2, there is no evidence of SDB in the discipline responses ($p = 0.458$). We do find evidence of SDB in the tolerance question ($p = 0.005$); however, it is only in the condition where the star employee's prior act was not tolerated (the control condition; $p < 0.001$), not in the test condition where the prior act was tolerated ($p = 0.844$). Because we have mixed results for the presence of SDB, as well as the apparent SDB for tolerance being only in the control condition, we use the self-report questions as the primary dependent variables for Experiment 2 and then conduct sensitivity tests on the tolerance results.[24]

Thus, the first dependent variable question is, "As a result of Terry's personal vehicle repair charged on Warehouse #3's expense account, you would:" (0 = "Do Nothing", 100 = "Terminate Terry"). The second dependent variable question is, "How likely would it be that you would tolerate Terry's violation of company policy?" (0 = "Not Likely to Tolerate", 100 = "Very Likely to Tolerate"). As discussed above in Experiment 1, the scale used in this study was a modification of Hunt and Vasquez-Parraga's (1993) multiple choice scale used to measure the discipline intensity a sales manager would give a salesperson for unethical behavior.

Results

Manipulation Checks and Completion Time

Qualtrics Panel invited 145 participants to take the instrument; 108 passed both manipulation checks and had the minimum criteria of at least having earned a bachelor degree and one year of management experience.[25] One hundred thirty-four of

[24] We posit that there is less potential for SDB in Experiment 2 because the CEO has already responded to a prior fraudulent act, thus creating a degree of precedence.

[25] The MANOVA results in Table 3 are similar if we include all respondents in the analysis (n = 144), except that magnitude of the act has $p = 0.142$.

the 145 participants passed the magnitude manipulation check, and 114 passed the prior act tolerated manipulation check. The average time of completion was 24.8 minutes (median of seventeen minutes).

Participants' Perceptions of the Case

The participants in this study were asked their opinion of the realism and understandability of the case instrument. In response to the question, "How realistic do you find this case?" (0 = "Realistic", 100 = "Very Realistic"), the mean was 69.86 (standard deviation = 25.31). For the question, "How understandable do you find this case?" (0 = "Difficult to Understand", 100 = "Easy to Understand"), the mean was 82.92 (standard deviation = 16.85).[26]

Demographics

Table 1 also provides demographic information about the participants in Experiment 2. Fifty-seven percent were female, and most were over forty years old (sixty-three percent). Most participants had more than five years of management experience (sixty-three percent), and ninety-three percent were employed full-time. Most participants were currently employed in mid- or high-level management positions (ninety-three percent), and most were currently employed at a firm with greater than fifty-one employees (eighty-one percent). Fifty-six percent worked for private companies, twenty-one percent for publicly traded firms, and thirteen percent for not-for-profit entities. Nearly all of the participants had earned a bachelor degree (sixty-one percent), some graduate education (ten percent), or a masters/law degree (twenty-seven percent).

MANOVA Results

The two dependent variables are correlated ($r = -0.269$, $p < 0.005$), and as a result, we first run a MANOVA (significant at $p < 0.001$). The results in Table 3 Panel A indicate that prior act tolerance is significant ($p < 0.001$) and that the magnitude of the act is marginally significant ($p = 0.087$), consistent with H4 and H5. The MANOVA reveals no evidence of an interaction of prior act tolerance and the magnitude of the act ($p = 0.350$), inconsistent with H6.

ANOVA Results

The discipline dependent variable in Experiment 2 asks, "As a result of Terry's personal vehicle repair charged on Warehouse #3's expense account, you would: "(0 = "Do Nothing", 100 = "Terminate Terry"). The descriptive statistics indicate that the means for a similar star employee's behavior not tolerated (73.18) and tolerated (47.81) in the past are significantly different ($p < 0.001$), consistent with H4. The means for a smaller magnitude act (57.19) and a larger magnitude act (66.73) are marginally different ($p = 0.061$), consistent with H5.

The two-way ANOVA results for the discipline dependent variable are shown in Panel B of Table 3. The overall model is significant ($p < 0.001$). The prior act tolerated variable is significant ($p < 0.001$, $F = 32.67$), which lends support to H4.[27] Magnitude of the act is also statistically significant ($p = 0.027$, $F = 5.02$), supporting H5.[28] The interaction is not statistically significant ($p = 0.175$, $F = 1.87$), inconsistent with H6. [see Table 3, pg 314]

The tolerance dependent variable in Experiment 2 asks, "How likely would it be that you would tolerate Terry's violation of company policy?" (0 = "Not Likely to Tolerate", 100 = "Very Likely to Tolerate"). The descriptive statistics for the tolerance dependent variable reveal that the means for a prior tolerance of a fraudulent act perpetrated by a star employee (44.51) and for a prior act not being tolerated (24.05) are significantly different ($p < 0.001$), consistent with H4. The mean for a smaller magnitude act (33.12) and the larger act mean (32.80) are not significantly different ($p = 0.995$), which is inconsistent with H5.

The two-way ANOVA results for the tolerance dependent variable are reported in Table 3 Panel C. The overall model is significant ($p = 0.002$). There is statistical significance ($p < 0.001$, $F = 15.45$) for the prior act tolerated variable (H4) in this model.[29] Neither the magnitude variable ($p = 0.926$, $F = 0.01$; H5) nor the interaction of the prior act tolerated and magnitude of the act ($p = 0.501$, $F = 0.46$; H6) were statistically significant.

As noted above, we find evidence of SDB in the tolerance responses, but it is only in the control condition. We conduct two sensitivity tests to address SDB in Experiment 2. First, consistent with the analysis for Experiment 1, we rerun the tolerance

[26] Both realistic and understandable have means that are significantly greater than the scale midpoint of 50 ($p < 0.001$).
[27] The prior act tolerated effect size is large (Cohen's $f = 0.560$) (Cohen, 1988).
[28] The magnitude of the act effect size is small (Cohen's $f = 0.220$) (Cohen, 1988).
[29] The effect size for prior act tolerated is small (Cohen's $f = 0.385$) (Cohen 1988).

ANOVA for Experiment 2 using the *Most Managers* tolerance question as the dependent variable. This model is insignificant ($p = 0.437$), as is the prior tolerance variable ($p = 0.230$). Second, as in Cohen *et al*., (2007), we add a covariate to the tolerance ANOVA reported in Table 3, Panel C. This covariate is BIAS, the difference between each participant's self-report tolerance response and his/her *Most Managers* tolerance response. In this analysis, the ANOVA model is significant ($p < 0.001$), as are the prior tolerance variable ($p = 0.002$) and the BIAS variable ($p < 0.001$). Thus, the tolerance ANOVA results in Experiment 2 are sensitive to the manner in which SDB is addressed.

When the results of the two ANOVAs in Experiment 2 are considered together, both ANOVAs support H4 (prior tolerance of the act), although the tolerance ANOVA results should be interpreted with caution given the mixed findings in the SDB sensitivity testing. The results are mixed regarding H5 (the magnitude of the act), which is supported in the ANOVA for the discipline variable, but not for the tolerance variable. The ANOVAs provide no evidence of an interaction between prior act tolerance and the magnitude of the act (H6). This is similar to the findings in Experiment 1 of this study, as well as the sales manager literature (Bellizzi and Bristol, 2005; Bellizzi and Hasty, 2003; DeConinck, 1992).

Conclusion

This study extends prior research by examining first whether non-sales star employees are permitted to engage in more occupational fraud than average employees and second, and more importantly, whether a tone at the top that tolerates/does not tolerate a star employee's occupational fraud affects the management control system (i.e., the discipline/tolerance response) for subsequent acts perpetrated by an average employee. We find that participants perceive that most managers treat star employees more leniently than average employees. We also find evidence that a tone at the top that tolerates a prior anti-company fraudulent act by a star employee (i.e., tacit knowledge of past tolerance) influences the managerial response to an average employee who subsequently perpetrates a similar act (i.e., tacit collusion with the unwritten rules of conduct), thus compromising management control systems.

The Treadway Commission (NCFFR, 1987) indicated that tone at the top is the primary influence for ethical behavior in an organization, and the Center for Audit Quality (CAQ, 2010) reported that the ethical tone at the top is highly influential in the ethical behavior of those in middle- and lower-level positions in a company. Our results suggest that management control systems are made less effective when a star employee is permitted to engage in occupational fraud and overriding management control systems for the star employee likely leads to similar fraudulent acts by average employees being handled more leniently. Thus, the effects of a weak tone at the top can spread occupational fraud throughout the organization.

We recognize that the study has some limitations. First, we examine only two hypothetical situations, and it is not clear that the results would generalize to other settings. Second, we encountered SDB in Experiment 1 and to a limited extent in Experiment 2. We have done our best to address the SDB and to present a variety of analyses to determine the robustness of the results. Finally, the two experiments involved different methods of data collection, as well as somewhat different participant demographic profiles (e.g., Experiment 2 participants are older and more experienced). However, we found no evidence that age or experience affect the results of either experiment.

Despite these limitations, we believe that the results have implications for academic research, practitioners, and policy makers. From a research perspective, this study extends star employee research beyond the sales realm to occupational fraud by non-sales employees. We find that respondents perceive that the tolerance and discipline decisions of most managers they have worked with are significantly influenced by the type of employee being disciplined. Researchers could use this knowledge to investigate this phenomenon further, such as focusing on organizational and personal factors that may affect how most managers discipline a star employee versus an average employee. In addition, this study provides evidence that tolerating star employee occupational fraud affects subsequent manager discipline decisions. This knowledge may allow researchers to investigate the specific reasons why an executive would choose to exhibit a poor tone at the top and if management control implications are evaluated during executive discipline decision making.

Policymakers and practitioners can use the findings of this study to focus their efforts on identifying occupational fraud in organizations. Specifically, such frauds appear to be especially likely to be tolerated when they are committed by star employees and/or when they are small. Such frauds may spread throughout the organization through tacit collusion as subsequent managers also choose to tolerate fraudulent acts, ultimately producing much more significant losses. The findings also may help policymakers and practitioners to understand that the tolerance of fraudulent acts by stars and smaller acts may reflect the tone at the top and the ethical climate of the organization that the Association of Certified Fraud Examiners (ACFE, 2016), Committee of Sponsoring Organizations (COSO, 2013), and Center for Audit Quality (CAQ,

2010) deem so important in addressing fraud risk. Ultimately, tolerance of occupational fraud in an organization can significantly contribute to the high cost of occupational fraud (ACFE, 2016).

Further, this study has important implications for policy makers who may be inclined to minimize the punishment for smaller ethical violations. Experiment 2 revealed that disciplining current unethical acts has an effect on the discipline administered for similar subsequent unethical acts. This study suggests that policy makers consider the discipline intensity they build into regulations for smaller acts of unethical behavior, knowing that the disciplinary action related to current acts may be a preventative action against future unethical acts.

Also, this study could assist in training executives and top managers, so they may better understand their own decision-making processes before they negatively affect their organization's control environment. Such training may help to curb smaller magnitude unethical acts that managers are more likely to tolerate, especially when perpetrated by star employees whose performance positively affects the top manager's income. Prior research has demonstrated that corruption often starts with a single occurrence of a smaller unethical act that grows into organization-wide accepted behavior (Ashforth and Anand, 2003). Experiment 1 revealed that the participants perceived that the typical manager was likely influenced by the type of employee committing the act. Such knowledge could help managers to better understand how disciplinary decisions are made with respect to star and average employees, which have the potential to weaken the control environment.

This study's results also have implications for top managers and executives because they highlight an advantage of adopting a zero-tolerance policy for unethical behavior. This is especially important when one considers that Experiment 2 revealed that the existence of prior tolerance/non-tolerance by a top manager/executive is a significant factor in the disciplinary decisions that managers make. Thus, prior unethical act tolerance/non-tolerance by an executive or top manager has an impact on the control environment, which affects how subsequent unethical acts are handled.

To extend the current study, future research could use a face-to-face experiment to attempt to more accurately create the external pressures managers feel when making discipline decisions related to occupational fraud. Future studies could investigate how middle and lower managers' perceptions of the tone at the top influence their discipline and tolerance responses for occupational fraud perpetrated by both star employee and average employee subordinates. Future studies could investigate the personal and organizational factors that likely influence the discipline decisions managers make, such as job security, personal financial stability, and career mobility. Future research could investigate whether race or gender of the manager has any influence on discipline/tolerance decisions, although we found no evidence of gender effects in this study. Finally, this study could stimulate research that helps us to further understand the factors that influence fraudulent behavior tolerance within an organization, which may reveal how fraudulent behavior spreads in organizations.

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Figure 1:

Leader's Response to Subordinate Poor Performance Causal Attribution Model (Mitchell and Wood 1980)

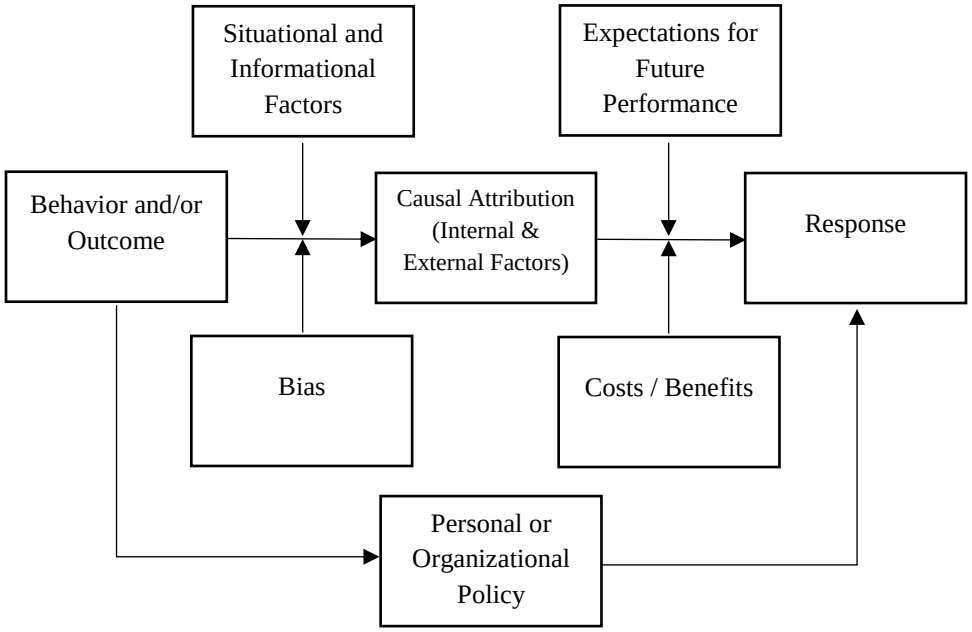

Table 1:

Demographics

	Exper. 1 Star Employee Tolerance (n = 119)	Exper. 2 Effect of Star Employee Tolerance (n = 108)
Gender		
Male	54%	43%
Female	46%	57%
Age		(n = 107)
40 years or below	72%	37%
Over 40 years old	28%	63%
Years professional management experience		
5 Years or Less	67%	37%
More than 5 Years	33%	63%
Employment status		
Full-time	77%	93%
Part-time	16%	5%
Unemployed	7%	2%
Current management level	(n = 117)	
Low-Level	34%	7%
Mid-Level	38%	56%
Senior-Level	7%	37%
Not Currently a Manager	18%	0%
Other	3%	0%
Size of current employer (# of employees)	(n = 116)	
1 or Sole Proprietor	9%	1%
2 to 10	8%	6%
11 to 50	14%	12%
51 to 500	28%	35%
501 to 1,000	8%	11%
More than 1,000	33%	35%
Type of entity currently work for	(n = 116)	
Publicly Traded	22%	21%
Privately Owned	48%	56%
Government	9%	9%
Not-for-Profit	14%	13%
Other	7%	1%
Highest educational degree earned		
Undergraduate Degree	68%	61%
Some Graduate Education	10%	10%
Masters / Law Degree	20%	27%
Doctoral Degree	2%	2%

Table 2:

Experiment 1
MANOVA and ANOVAs

Panel A: MANOVA [a]

	F-statistic	p-value
Model	2.84	0.011
Employee Type (H1)	3.82	0.025
Magnitude of the Act (H2)	4.72	0.011
Employee Type X Magnitude of the Act (H3)	0.68	0.509

Panel B: Means (SDs) and ANOVA for Discipline

"What do you think most managers you have worked with would do if confronted with the situation presented in this case?" (0 = "Do Nothing", 100 = "Terminate Chris").

	Mean (SD)		
	Small Act	Large Act	Total
Average Employee	73.38 (22.26) n = 34	84.38 (14.73) n = 26	78.15 (19.98) n = 60
Star Employee	62.00 (24.02) n = 28	75.61 (23.61) n = 31	69.15 (24.57) n = 59
Total	68.24 (23.58) n = 62	79.61 (20.37) n = 57	73.69 (22.73) n = 119

	df	Mean Squared	F-statistic	p-value
Employee Type (H1)	1	2990.06	6.36	0.013
Magnitude of the Act (H2)	1	4460.26	9.49	0.003
Employee Type x Magnitude of the Act (H3)	1	50.17	0.11	0.745
Corrected Model	3	2305.99	4.91	0.003
Error	115	470.118		

R-Squared = 0.113 (Adjusted R-Squared = 0.090)

Panel C: Means (SDs) and ANOVA for Tolerance

"How likely would it be that most managers you have worked with would tolerate Chris's violation of company policy?" (0 = "Not Likely", 100 = "Very Likely").

	Mean (SD)		
	Small Act	Large Act	Total
Average Employee	20.88 (20.85) n = 34	18.58 (28.78) n = 26	19.88 (24.40) n = 60
Star Employee	38.50 (31.90) n = 28	24.94 (28.20) n = 31	31.37 (30.52) n = 59
Total	28.84 (27.64) n = 62	22.04 (28.39) n = 57	25.58 (28.09) n = 119

	df	Mean Squared	F-statistic	p-value
Employee Type (H1)	1	4231.7	5.63	0.019
Magnitude of the Act (H2)	1	1853.98	2.47	0.119
Employee Type x Magnitude of the Act (H3)	1	933.17	1.24	0.267
Corrected Model	3	2237.42	2.98	0.035
Error	115	751.24		

R-Squared = 0.072 (Adjusted R-Squared = 0.048)

[a] The dependent variables are Discipline Intensity and Tolerance of *most managers* the participants have worked with, each on a 0-100 scale. See Panels B and C for the wording of each question.

Independent variables: (1) Employee Type = 1 for star employee, 0 for average employee, and (2) Magnitude of the Act = 1 for large act, 0 for small act.

Table 3:

Experiment 2
MANOVA and ANOVAs

Panel A: MANOVA [a]

	F-statistic	p-value
Model	7.513	< 0.001
Prior Act Tolerated (H4)	21.569	< 0.001
Magnitude of the Act (H5)	2.500	0.087
Prior Act Tolerated X Magnitude of the Act (H6)	1.060	0.350

Panel B: Means and ANOVA for Discipline

"As a result of Terry's personal vehicle repair charged on Warehouse #3's expense account, you would: (0 = Do Nothing, 100 = Terminate Terry)."

	Mean (SD)		
	Small Act	Large Act	Total
Prior Act Not Tolerated	71.14 (18.96) n = 29	75.03 (20.11) n = 32	73.18 (19.51) n = 61
Prior Act Tolerated	39.61 (24.68) n = 23	55.67 (28.48) n = 24	47.81 (27.62) n = 47
Total	57.19 (26.65) n = 52	66.73 (25.70) n = 56	62.14 (26.47) n = 108

	df	Mean Squared	F-statistic	p-value
Prior Act Tolerated (H4)	1	17167.42	32.67	< 0.001
Magnitude of the Act (H5)	1	2638.26	5.02	0.027
Prior Act Tolerated X Magnitude of the Act (H6)	1	980.79	1.87	0.175
Corrected Model	3	6782.56	12.91	< 0.001
Error	104	525.45		

R-Squared = 0.271 (Adjusted R-Squared = 0.250)

Panel C: Means and ANOVA for Tolerance

"How likely would it be that you would tolerate Terry's violation of company policy? (0 = Not Likely, 100 = Very Likely)."

	Mean (SD)		
	Small Act	Large Act	Total
Prior Act Not Tolerated	22.45 (24.34) n = 29	25.50 (25.32) n = 32	24.05 (24.70) n = 61
Prior Act Tolerated	46.57 (29.99) n = 23	42.54 (28.99) n = 24	44.51 (29.23) n = 47
Total	33.12 (29.32) n = 52	32.80 (28.02) n = 56	32.95 (28.52) n = 108

	df	Mean Squared	F-statistic	p-value
Prior Act Tolerated (H4)	1	11227.84	15.45	< 0.001
Magnitude of the Act (H5)	1	6.26	0.01	0.926
Prior Act Tolerated X Magnitude of the Act (H6)	1	331.79	0.46	0.501
Corrected Model	3	3815.33	5.25	0.002
Error	104	726.72		

R-Squared = 0.132 (Adjusted R-Squared = 0.106)

[a] The dependent variables are Discipline Intensity and Tolerance, each on a 0-100 scale. See Panels B and C for the wording of each question.

Independent variables: (1) Prior Act Tolerated = 1 for yes, 0 for no, and (2) Magnitude of the Act = 1 for large act, 0 for small act.