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G. Stoney Alder  
*University of Nevada, Las Vegas*

Rebecca M. Guidice  
*University of Nevada, Las Vegas*

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## THE ETHICS OF BLUFFING: THE EFFECTS OF INDIVIDUAL DIFFERENCES ON PERCEIVED ETHICALITY AND BLUFFING BEHAVIOR

G. Stoney Alder, University of Nevada, Las Vegas  
Rebecca M. Guidice, University of Nevada, Las Vegas

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*Although researchers have debated the ethicality of bluffing in business, little research has examined individuals' attitudes and beliefs towards bluffing and how characteristics of the individual influence such perceptions and subsequent behavior. We consider this issue by examining how individuals' ethical orientation influences their perceptions of the ethicality of bluffing select organizational stakeholders, their willingness to bluff, and their actual bluffing behavior. Results indicate that ethical orientation exerts direct effects on the perceived ethicality of bluffing and indirect effects on individuals' reported willingness to engage in this misleading form of communication as well as their actual bluffing behavior. Implications for research and practice are discussed.*

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Although bluffing, as a form of misleading communication, is a familiar practice to many individuals, groups, and organizations, there is little agreement as to its ethicality. Indeed, academicians have debated and philosophized on the ethicality of bluffing in business for decades (e.g., Allhoff, 2003; Carr, 1968; Lewicki and Robinson, 1998). Despite these discussions, there is a paucity of research that examines individuals' attitudes and beliefs towards bluffing and how characteristics of the individual may influence such perceptions. As a result, we know little about how individual differences influence employees' perceptions of and willingness to mislead others in their communications. This line of research is important for at least two reasons. First, from a theory and research perspective, a complete understanding of bluffing requires full consideration of the variables that may be responsible for individuals' reactions to bluffing as well as their willingness to do so themselves. To the extent that individual differences affect perceptions of and attitudes toward bluffing, any theoretical model that omits individual differences is incomplete. Second, this avenue of research will similarly contribute to the business ethics literature by enhancing our understanding of the effect individual difference variables have on individuals' attitudes, intentions, and behaviors in ethical "gray" areas.

Our paper seeks to shed light on this issue by examining how individuals' ethical orientation (Brady, 1985, 1990) influences their judgments on the ethicality of bluffing various organizational stakeholders, their willingness to so, and ultimately, their bluffing behavior in a competitive context. Simply put, the research questions that we hope to answer are these; does ethical orientation help predict different views on the practice of bluffing and how do those views influence individuals' intention to and engagement in bluffing? We begin by first examining the nature and prevalence of business related bluffing and subsequently review existing research on bluffing as related to our study.

### PART 1: THEORY & HYPOTHESES

#### Bluffing In and By Organizations

Bluffing is the practice of intentionally communicating a misleading signal of intended action with the expectation that its recipient(s) interpret and react as if the communication were truthful (Guidice et al., 2009). Ample evidence exists of instances where parties have used this type of communication in an attempt to achieve a superior position over competitors or to reach an optimal agreement in important negotiations (e.g., Bayus et al., 2001; Heil and Langvardt, 1994). For example, Coke and Pepsi developed a brief relationship with Holland Sweetener, a foreign supplier of artificial sweetener, which they subsequently used as a tool in negotiations with their existing supplier, Monsanto. Monsanto was led to believe that if they did not reduce the price of their sweetener, these two major soda manufacturers would switch suppliers (Brandenburger and Nalebuff, 1996). Intel publically toyed with the idea of relocating its Oregon operations until receiving state tax concessions that then allowed the company to better invest its resources in the region's people and property (Sheketoff, 2005). Kabi and Genentech used decoy patents to mislead their rivals into believing research was being conducted on multiple processes; the goal of which was to keep rivals guessing as to what medical breakthrough the alliance was actually pursuing (McKelvey, 1996). North Korea leader, Kim Jong II, claimed to have the nuclear weapons needed to prevent outside interference in the country's functioning and ideology. Whether government officials were bluffing was not entirely known, but given the potential consequences if true, the threat gave the regime a temporary advantage in negotiations with foreign agencies with which they had economic or political ties (Herman, 2005).

#### Bluffing Research

While signals can be a useful form of communication (Milewicz and Herbig, 1997; Porter, 1980), some signals

can be disingenuous, containing announcements that the sender has no intention of acting upon immediately, if ever. Indeed, as suggested in the previous section, bluffing can be strategically beneficial (McNeilly, 1996) through its ability to convey important information to key stakeholders and/or provide the bluffer with valuable knowledge based on recipients' reactions to the announcement. Given its widespread use, it is noteworthy that the practice of bluffing has, apart from academic discourse in business ethics and negotiations, been largely under-investigated. Among a variety of issues worthy of continued examination is the extent to which individuals consider the practice ethical or unethical and what variables help differentiate those views. Also missing in the literature is a definitive answer as to how those views influence individuals' intention to and subsequent engagement in bluffing.

Perhaps motivated by the prevalence of bluffing and other misleading communication in business, researchers and philosophers have long debated its ethicality. On the one hand, Eliashberg et al., (1996) argued that it is an unacceptable practice and Lewicki and Robinson (1998, p.666) considered it to be an objectionable form of lying that serves "to misinform the opponent, to eliminate or obscure the opponent's choice alternatives, or to manipulate the perceived costs and benefits of particular options that the opponent may wish to pursue". In contrast, advocates of bluffing contend that bluffing is acceptable and ethical (Allhoff, 2003). Carson (1993) indicates that since there is no warrantability for truth with bluffing, the terms lying and bluffing cannot be considered synonymous. Carr (1968) argued that bluffing may simply be an unspoken rule of the game." Amidst these two opposing positions is the belief that bluffing is an ethically neutral behavior (Anton, 1990). Given these varied perspectives, it is clear that the ethicality of bluffing is less than straightforward and sits on the ethical edge.

Based on existing ambiguity, there is reason to believe that attitudes toward bluffing may not be fixed, but rather vary based on a number of variables. One such factor may be the severity and legality of the misleading communication. Unquestionably, few would argue that the accounting manipulations receiving widespread attention in today's press constitute an unethical business practice. Of interest in this study, however, is the relatively large gray area in which it is less clear where the line between ethicality and unethicality may be drawn and where additional factors besides severity or legality apply to help explain differing judgments of ethicality.

Another potential determinant of ethical attitudes towards different forms of misleading communication including bluffs is the target of the act (Ross and Robertson, 2000). Guidice and colleagues (2009) found that decision makers' views on the ethicality of bluffing differed depending on the entity under consideration (e.g. individuals were most lenient in their judgments of ethicality when the recipient of the bluff is a competitor).

Allhoff (2003) used a role differentiated perspective to make the argument that attitudes on the legitimacy of bluffing in business is context specific and thus, is likely to be viewed favorably when the parties involved, based on their role in business, endorse the practice.

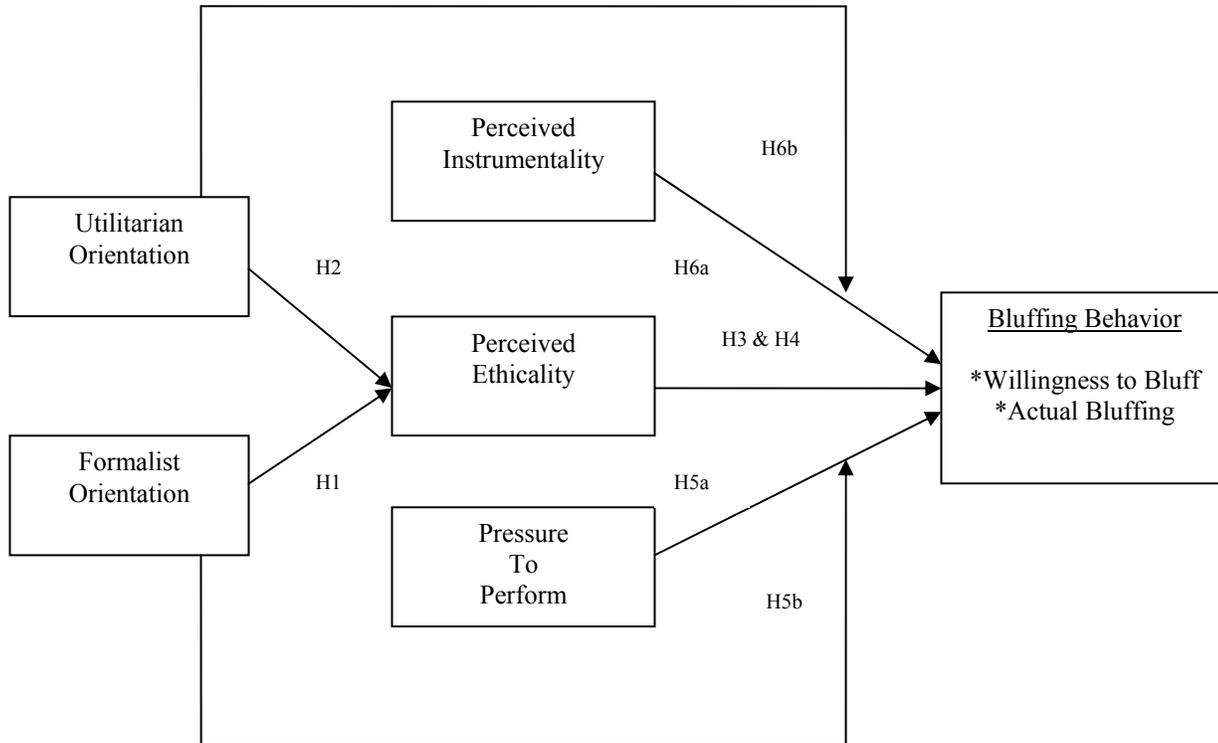
We add to this growing body of research the proposition that individual differences may also help predict judgments of the ethicality of bluffing. That is, although the content, target, and context of misleading communication are clearly important as evidenced by existing research, we suggest that they are not the exclusive determinants of individuals' evaluations of bluffing. Some individuals may consider a given communication event more or less ethical than other individuals consider the same communication aimed at the same target, and this difference may be best explained by considering characteristics of the individual. Indeed, a long line of research in organizational behavior indicates that individual differences exert important influences on individuals' perceptions, attitudes, and behaviors. Ethics theory and research similarly suggests an important role for a number of individual variables, including a person's stage of moral development (Ferrell et al., 1989; Kohlberg, 1984; Rest, 1986; Sparks and Merenski, 2000). Despite this, it is noteworthy that research has generally excluded consideration of the effect individual differences may have on our attitudes and beliefs toward bluffing.

This paper seeks to address this important gap in the literature by examining individual ethical predispositions relating to formalist (rules-based) and utilitarian (results-based) ethical decision making. We propose that different ethical orientations will lead to different individual assessments of the ethicality of bluffing different entities and varied degrees of willingness to use this form of misleading communication. Figure 1 depicts the relationships that will be examined in the current study.

## **Ethical Orientation**

Classifying how individuals interpret ethical situations by identifying their ethical orientation has occupied ethical scholars for some time. Ethical orientation is an individual's predisposition to rely on a certain pattern of reasoning when evaluating ethical issues. One well-known distinction differentiates between formalist and utilitarian reasoning (Brady, 1985, 1990). Formalism (often associated with Kantian ethics) and utilitarianism (often associated with Bentham and Mills) parallel deontology and teleology respectively (Brady, 1990), which Kohlberg (1984, p. 579) suggested are "the two major ethical principles." Nozick (1981, p. 494) argued that all of substantive ethics has been fitted or poured into these two powerful and appealing molds. Brady and Wheeler (1996) similarly concluded that the distinction between formalism and utilitarianism may be the most important distinction in ethical theory.

FIGURE 1

**Theoretical Relationship Between Ethical Predisposition, Perceived Instrumentality, Perceived Ethicality, Pressure, and Bluffing Behavior**

As a personal predisposition, formalists are considered past oriented; relying on a set of rules, principles, or standards for guiding behavior (Brady, 1985; Reynolds, 2006). According to formalists, actions are ethical or not to the extent that they adhere to these rules, principles, or standards irrespective of their outcome. In contrast, utilitarians are future oriented; evaluating the ethicality of actions in terms of their expected consequences or results (Brady, 1985; Reynolds, 2006). Rather than look for some inherent morality to determine if a given action is ethical or not, utilitarians consider actions to be ethical if they produce the greatest possible outcome.

Traditionally, formalism and utilitarianism were viewed as opposite ends of a single ethical continuum such that stronger tendencies toward one implied weaker tendencies toward the other. More recently, research indicates that instead, they represent two independent dimensions of an individual's ethical predisposition. That is, individuals may prefer one or both - and each to a greater or lesser degree - when reasoning through ethical situations (Brady, 1990; Brady and Wheeler, 1996; Schminke and Wells, 1999).

Research indicates employees' ethical orientations may influence their interpretations of and attitudes towards organization-based procedures and practices. For example, Reynolds (2006) found evidence suggesting that formalism and utilitarianism provide patterns by which organizational information is processed and thereby serve as guides for individuals' attention. Consistent with this logic, Alder and colleagues (Alder et al., 2007; Alder et al., 2008) found that ethical orientation affects employees' judgments of the appropriateness and usefulness of potentially invasive human resource programs (i.e., internet monitoring, drug testing, and background checks). Our study extends this research by examining the effect ethical orientation has on individuals' assessments of the ethicality of bluffing and on their willingness do so.

### Ethical Orientation and Bluffing

Formalists focus on principles when deciding what is morally right and are less concerned with the outcome of an act in making ethical determinations. For formalists, acts are right in and of themselves regardless of the outcomes they lead to. When assessing various employee behaviors,

including business related bluffing, formalists should therefore consider the extent to which doing so violates or adheres to their ethical principles. A number of philosophers and ethical theorists have concluded that the central issue in ethics involves rights and duties (Sumner, 2000). This approach maintains that the ethical act or decision is the one that recognizes and respects the rights of others and the duties that those rights impose on the actor. Among the most often cited rights is the right to be told the truth.

If individuals have the right to be told the truth, then individuals sending signals or other forms of communication have a concomitant duty to not tell a lie. Lewicki (1983) defined lying as “any intentionally deceptive message which is stated”. Lewicki and Robinson (1998) propose that dishonesty in negotiation is primarily concerned with problems of lying and truth telling. To the extent that bluffing is synonymous with lying, it violates actors’ duty to avoid lying. However, as described above, there is considerable debate in the literature as to whether or not bluffing is synonymous with lying (see Carson, 1993; Lewicki and Robinson, 1998). As such, it appears bluffing may lie in a gray zone on the continuum from truth telling to lying. We would expect that high formalists, with their focus on moral rules, would be more sensitive to this gray zone than low formalists. As a result, high formalists will likely consider bluffing counter to their ethical guidelines and therefore unethical regardless of the non-moral outcomes it generates.

**Hypothesis 1:** Ethical formalism will be negatively related to individuals’ perceptions of the ethicality of bluffing business stakeholders.

In contrast, utilitarians focus on outcomes rather principles when assessing the ethicality of actions and decisions. For these individuals, the focus is on whether or not the action or decision will be effective at accomplishing the goal they were designed to pursue. Thus, the issue of effectiveness should be highly salient for utilitarians when assessing the ethicality of bluffing. In this context, ethical judgments may boil down to weighing the non-moral gains and losses that will accrue to the various stakeholders as a result of the bluff. Consequently, for utilitarians, providing seemingly innocuous misleading information to a competitor or other organizational stakeholder may be deemed appropriate if it leads to valuable outcomes such as a vital sale.

A number of researchers indicate that bluffing is an important ingredient for organizational effectiveness. Zahra (1994) found that executives often justify their competitive practices on the grounds that competition is similar to war, which subsequently makes acts that maintain or improve one’s position in the marketplace permissible. D’Aveni (1994; 1995) argued that signaling was an essential tool for fending off rivals in intensely competitive markets. In

particular, he suggested that signals, such as preannouncements, be used to create uncertainty or otherwise manipulate competitors’ anticipated moves. Given utilitarians’ focus on effectiveness we would expect high utilitarians to view bluffing more favorably than low utilitarians.

**Hypothesis 2:** Ethical utilitarianism will be positively related to individuals’ perceptions of the ethicality of bluffing competitors and other organizational stakeholders.

Ethics is an important concern for society, businesses, and most individuals. Indeed, nine out of ten large corporations have a code of ethics in place (Murphy, 1995). The primary objectives of most corporate ethics training programs is developing in employees an awareness of what constitutes ethical issues and providing employees with practical decision making models (Harrington, 1991). These foci indicate there is an implicit assumption that employees already care about ethics and they simply need help in making better ethical judgments. All else being equal, we therefore expect individuals’ perception of the ethicality of bluffing to be an important determinant of their willingness to engage in such behavior. This belief is also supported by the theory of planned behavior wherein it is suggested that attitudes influence behavioral intentions (Ajzen & Fishbein, 1980; Fishbein & Ajzen, 1975). Consistent with this logic, Guidice et al. (2009) found that decision makers that view competitor bluffing as more ethical (less unethical) were more willing to engage in bluffing. We expect the same relationship to hold for not only competitors, but also other targets of misleading communication and therefore predict:

**Hypothesis 3:** Perceived ethicality will mediate the relationship between individuals’ ethical orientation and their willingness to bluff competitors and other organizational stakeholders.

## METHOD

We tested our hypotheses with a study that we detail in two parts. In part one, forty first-year MBA students and sixty-seven senior undergraduate business students enrolled in a major Southwestern university completed a survey that collected demographic information, formalist and utilitarian ethical orientations, and attitudes and beliefs toward bluffing. Participants received extra course credit for their participation. Analysis revealed no significant differences in demographics or bluffing behavior (explained in part two of the study) between MBA and undergraduates; therefore their data was combined in our analyses. Fifty-five percent of the participants were female. The average age of respondents was 26.5 years. Ninety-seven percent reported having work experience, with an average of eight years.

Fifty-four percent had managerial experience, with an average of two years.

## Measures

### *Ethical Orientation*

The character traits version of the Measure of Ethical Viewpoints is an alternative measure of the relative strength of participants' utilitarian and formalist ethical orientations (Brady and Wheeler, 1996). Developed as a pencil-and-paper test for ethical predisposition, this instrument lists twenty character traits (e.g., effective, honest, results oriented, law-abiding) that subjects rate on a seven-point scale (1 = not important to me, 7 = very important to me) according to their personal judgment of the trait's importance. For consistency with the rest of the survey, we utilized a five point scale rather than Brady and Wheeler's (1996) seven point scale.

Brady and Wheeler (1996) report factor analytic results revealing two major factors in this instrument. Factor 1, utilitarianism, included the traits of innovative, resourceful, effective, influential, results-oriented, productive, and a winner. Factor 2, formalism, included the traits of principled, dependable, trustworthy, honest, noted for integrity, and law-abiding. Reliabilities for the two scales in their sample were 0.75 and 0.86, respectively. Consistent with prior studies, we calculated a utilitarian score and a formalist score for each participant by averaging the responses to the items belonging to each scale. Utilitarianism scores ranged from 2.3 to 5.0 with a mean of 4.0 ( $\alpha = .81$ ) and formalism scores ranged from 2.8 to 5.0 with a mean of 4.5 ( $\alpha = .75$ ).

### *Perceived Ethicality of Bluffing*

Adapted from Ross and Robertson (2000), participants were presented with a short scenario that described the opportunity to make a large, valuable sale. However, in order to complete the sale, one entity (competitor, customer, distributor, or company/employer) would need to be provided with misleading information. On a 5-point scale (1 = definitely unethical to 5 = definitely ethical) participants were asked to indicate how appropriate it would be to mislead each of the aforementioned targets.

### *Willingness to Bluff*

Using the same scenario reported above, participants were asked to indicate on a 5-point scale (1 = absolutely no chance to 5 = definitely willing) whether they would be willing to mislead the competitor, customer, distributor, or their company, in order to make the sale.

## Controls

Prior research indicates that individuals' interpretations of and reactions to ethical dilemmas is influenced by a

variety of demographic variables including age, gender, and culture. For instance, it has been suggested that older individuals and women may have higher ethical standards than younger individuals and men (e.g., Dawson, 1997; Peterson, Rhoads, and Vaught, 2001). Thus, we controlled for participants' age, gender, and citizenship in all analyses prior to adding other variables in our regression models.

## RESULTS

Table 1 presents means, standard deviations, and intercorrelations for the variables described above.

There has been discussion in the literature about the appropriate method for testing mediation. MacKinnon, Lockwood, Hoffman, West, and Sheets (2002) conducted a Monte Carlo simulation to compare 14 methods to test mediation. Results indicate that the widely used method proposed by Baron and Kenny (1986) has Type I error rates that are too small in all conditions and have very lower power, unless the effect or sample size is large. The authors suggested that an indirect effects approach better evaluates the mediation relationship (see also Collins et al., 1998). Specifically, they argued that in contrast to the Baron and Kenny approach, the test of joint significance provides the best balance of Type I error and statistical power and therefore they "strongly recommend this test for experimental investigations involving simple intervening variable models" (MacKinnon et al., 2002, p. 99).

The joint significance test approach suggests that one can conclude mediation when two conditions are met: 1) the independent variable predicts the mediator, and 2) the mediator predicts the dependent variable, controlling for the independent variables (MacKinnon et al., 2002). We follow this approach here by conducting several regression analyses. The first set of regression analyses assesses the relationship between ethical orientation and the perceived ethicality of misleading various stakeholders, which addresses the first condition for mediation and Hypotheses 1 and 2. The subsequent set of regressions assesses the relationship between perceived ethicality and individuals' willingness to mislead the stakeholders, which addresses the second condition for mediation and indicates whether mediation is supported.

Results for the first step in the mediation test are shown in Table 2. Hypothesis 1 predicted that ethical formalism would be negatively related to individuals' perceptions of the ethicality of bluffing. As shown in Table 2, this hypothesis was largely supported. After controlling for age, gender, and citizenship, there was a significant negative main effect for formalism on the perceived ethicality of misleading distributors ( $\beta = -.30, p < .01$ ), one's company ( $\beta = -.22, p < .05$ ), and competitors ( $\beta = -.29, p < .01$ ). While in the expected direction, the relationship between formalism and perceived ethicality of misleading customers did not reach statistical significance ( $\beta = -.16, p = ns$ ).

**TABLE 1**  
**Means, Standard Deviations, and Intercorrelations**

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12
1. Age	26.54	6.10												
2. Gender	0.55	0.50	.14											
3. Citizenship	0.11	0.31	.07	-.03										
4. Ethicality Company	1.43	0.92	-.06	-.20*	.11									
5. Ethicality Distributor	1.72	0.98	-.09	-.16	.11	.69**								
6. Ethicality Customer	1.46	0.92	-.14	-.14	.02	.27**	.49**							
7. Ethicality Competitor	2.65	1.35	-.08	-.18	.09	.24**	.56**	.47**						
8. Willingness Distributor	2.01	1.03	-.07	-.19*	.02	.36**	.65**	.31**	.49**					
9. Willingness Competitor	3.15	1.46	-.13	-.23*	.07	.39**	.56**	.44**	.67**	.65**				
10. Willingness Company	1.51	0.84	-.03	-.24*	.03	.64**	.51**	.28**	.26**	.46**	.32**			
11. Willingness Customer	1.74	0.98	-.15	-.15	.12	.34**	.52**	.69**	.49**	.46**	.49**	.51**		
12. Formalism	4.47	0.45	.09	.27**	.05	-.19*	-.24*	-.18	-.18	-.34**	-.15	-.25**	-.12	
13. Utilitarianism	4.00	0.59	.00	.04	-.10	.01	.01	-.06	.12	.05	.10	.04	.07	.47**

$n = 107$

\*  $p < .05$

\*\*  $p < .01$

Hypothesis 2 predicted a positive relationship between utilitarianism and individuals' perceptions of the ethicality of bluffing. The results depicted in Table 2 supported this hypothesis for two of the four targets as reflected by the significant relationship between utilitarianism and the perceived ethicality of misleading distributors ( $\beta = .14$ ,  $p <$

.10) and competitors ( $\beta = .24$ ,  $p < .05$ ). As with formalism, results were in the expected direction; however, the relationship between utilitarianism and perceived ethicality of misleading one's company ( $\beta = .10$ ,  $p = ns$ ) and customers ( $\beta = .00$ ,  $p = ns$ ) did not reach a meaningful level of significance.

**TABLE 2**  
**Regression Analysis: Ethical Orientation on Perceived Ethicality of Bluffing Stakeholders**

Dependent Variable:	Ethicality of Bluffing Distributors		Ethicality of Bluffing Company		Ethicality of Bluffing Competitors		Ethicality of Bluffing Customers	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Constant								
Age	-.08	-.06	-.04	-.03	-.06	-.05	-.12	-.11
Gender	-.15	-.07	-.19*	-.14	-.18	-.10	-.13	-.09
Citizenship	.11	.14	.10	.13	.09	.13	.02	.03
Formalism		-.30**		-.22*		-.29**		-.16
Utilitarianism		.14†		.10		.24*		.00
Adjusted R <sup>2</sup>	.01	.06	.02	.04	.02	.08	.01	.01
Model F	1.44	2.39*	1.82	1.88†	1.64	2.75*	1.20	1.21

$n = 107$ . Standardized regression coefficients are shown

†  $p < .10$

\*  $p < .05$

\*\*  $p < .01$

The next set of analyses tests the second step for mediation and examines Hypothesis 3, which predicted that perceived ethicality would mediate the relationship between participants' ethical orientation and their willingness to bluff. Table 3 displays the results of this analysis. These

results largely support our third hypothesis. As expected, the perceived ethicality of misleading stakeholders significantly predicts individuals' willingness to mislead distributors ( $\beta = .55$ ,  $p < .001$ ) and competitors ( $\beta = .68$ ,  $p < .001$ ). Also as expected, there is a significantly positive

relationship between the extent to which participants' believe misleading their company or customers is ethical and their reported willingness to mislead their company ( $\beta = .59, p < .001$ ) or customers ( $\beta = .67, p < .001$ ) respectively. However, inasmuch as formalism was not significantly related to the ethicality of misleading customers and utilitarianism did not significantly influence the perceived ethicality of misleading customers or one's company we can not conclude that perceived ethicality mediates these two stakeholder relationships. In sum, the

results support Hypothesis 3 for two of our targets. The perceived ethicality of bluffing distributors and customers mediates the relationship between ethical orientation and individuals' willingness to bluff those targets. In contrast, the results partially support Hypothesis 3 as it relates to customers and one's company. The perceived ethicality of bluffing customers and one's company affects individuals' willingness to bluff these targets but does not mediate between ethical orientation and bluffing behavior.

TABLE 3

**Regression Analysis: Perceived Ethicality on Willingness to Bluff Stakeholders**

Dependent Variable:	Willingness to Bluff Distributors		Willingness to Bluff Company		Willingness to Bluff Competitors		Willingness to Bluff Customers	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Constant								
Age	-.03	.01	.02	.04	-.11	-.07	-.13	-.06
Gender	-.04	.01	-.17†	-.09	-.14	-.07	-.07	-.01
Citizenship	.09	-.01	.05	-.02	.10	.02	.15	.13†
Formalism	-.39**	-.20*	-.29**	-.17†	-.16	.04	-.18	-.07
Utilitarianism	.26*	.17*	.15	.09	.20†	.04	.15	.15†
Distributor Ethicality		.55**						
Company Ethicality				.59**				
Competitor Ethicality						.68**		
Customer Ethicality								.67**
Adjusted R <sup>2</sup>	.11	.50	.08	.42	.05	.47	.08	.51
Model F	3.57**	18.20**	2.88*	13.23**	2.09†	16.09**	1.80	16.83**

$n = 107$ . Standardized regression coefficients are shown

†  $p < .10$

\*  $p < .05$

\*\*  $p < .01$

**DISCUSSION**

Consistent with our hypotheses, the first part of our study revealed a significant relationship between participants' ethical orientations and their assessments of the ethicality of bluffing a competitor, company, and distributor. Also as expected, results indicate a significant relationship between participants' perception of the degree to which engaging in a questionable practice such as bluffing is ethical and their reported willingness to engage in the practice. The second part of our study extends these findings by exploring attitudes and behaviors in a laboratory experiment.

**PART 2: THEORY & HYPOTHESES**

Although the results of our survey generally supported our hypothesized relationships, there may be a difference between individuals' reported willingness to breach ethical principles in a fictitious scenario and their willingness to do so in an actual situation where real outcomes are tied to their behavior. Although a growing stream of research examines the effect of ethical orientation on individuals' assessments of ethicality (Alder et al. 2007; Alder et al.,

2008), less research considers the effect of ethical orientation on individuals' ethical behavior.

Extensive research on the person-situation debate in organizational behavior provides strong evidence to suggest that neither individual nor situational variables alone completely account for individual behavior (Kenrick and Funder, 1988). Rather, characteristics of the individual interact with characteristics of the environment to determine attitudes and behaviors. Part two of our study therefore examines the effects of perceived ethicality as well as the interactive effect of ethical orientation with facets of the broader context on the degree to which individuals' try to bluff rivals in a competitive situation. Figure 1 also illustrates these proposed relationships.

**Perceived Ethicality**

As described above, ethical judgments can influence individuals' behaviors such that the more ethical (less unethical) they view bluffing, the more they are willing to engage in the behavior (Guidice et al., 2009). The theory of reasoned action likewise indicates that attitudes impact intentions (e.g., Ajzen and Madden, 1986; Albarracin et al., 2001; Flannery and May, 2000; Beck and Azjen, 1991) and

that these attitudes and intentions precede behavior (Fishbein and Ajzen, 1975). Studies in the negotiations literature have similarly argued that the more individuals regard deception as appropriate, the greater their intention to use the tactic in negotiations (Anton, 1990; Lewicki and Stark, 1996). Individuals' assessments of the ethicality of bluffing rivals in a competitive arena should therefore be positively related to the occurrence of the behavior itself (i.e., the extent to which they decide to actually engage in bluffing behavior). We therefore predict the following:

**Hypothesis 4:** Participants' perceptions of the ethicality of bluffing competitors will be positively related to the extent to which they attempt to do so.

Other factors may influence decisions to engage in questionable business practices. Indeed, some of the ethical violations that have been documented in the press are of such a nature that one can hardly doubt the individuals involved knew, at least at some level, that their actions were morally questionable. Although a myriad of factors may explain help such behavior, we examine two here - pressure to perform the behavior and instrumentality of the behavior.

### Pressure

Researchers agree that individuals may engage in questionable conduct in response to situational pressures and stressful working conditions (Rest, 1984; Trevino, 1987). For example, research indicates that unethical behavior may be associated with stressful social issues in the workplace (Van Zyle and Lazenby, 2002), a combination of unrealistic goals and a lack of support from supervisors (Simms, 1992), and strict rules and regulations (Erman, 1994). Ample anecdotal and survey evidence similarly support this conclusion. When managers from profile ethical scandals were asked why they implemented decisions that were unethical, a common response was the Nuremberg defense: "I thought this may have been wrong, but my boss told me to do it. I was just following orders" (Goldsmith, 2004). In the 1990s, ethical violations at Prudential Insurance became so pervasive that the company's management eventually estimated its liability from the pending class-action lawsuit at \$2 billion. Among the testimony from the case was the explanation that, "Your judgment gets clouded out in the field when you are pressured to sell, sell, sell" (Rudin, 2007). A survey of 1,300 workers by the American Society of Chartered Life Underwriters and Chartered Financial Consultants revealed that nearly half of the respondents took part in unethical or illegal activity, such as deceiving customers, as a result of pressure (Marchetti, 1997).

In sum, pressure or the need to succeed in a competitive environment can "force" individuals to commit ethically questionable acts they would not have otherwise committed. As indicated earlier, strategic scholars have argued that bluffing is essential to success in competitive

environments (D'Aveni, 1994; 1995; Zahra, 1994). These arguments suggest that the greater the pressure or need to perform individuals feel, the more likely they will be to perform a potentially questionable act such as providing competitors with misleading signals of intent.

**Hypothesis 5a:** Individuals' felt pressure to perform will be positively related to their efforts to bluff competitors.

Building on the previous hypothesis, we expect ethical formalism to moderate the pressure-bluffing behavior relationship. For formalists, moral imperatives are without exception. Hence, the moral imperative, "never tell a lie". In view of this rigidity, we would expect that the extent to which high formalists attempt to mislead their rivals in a competitive situation will be driven by their ethical orientation rather than by their pressure to perform. In contrast, we expect low formalists to be less stringent and more flexible in their response to ethically gray areas, including bluffing. Given such latitude in response, considerations beyond perceived ethicality, including the pressure to perform, may influence the behavior of low formalists. In short, the relationship between pressure to perform and misleading behavior will be weaker for high formalists than for low formalists.

**Hypothesis 5b:** Ethical formalism will moderate the relationship between individuals' felt pressure to perform and their efforts to bluff competitors.

### Instrumentality

A number of well established theories of motivation suggest that individuals are motivated to do those things that have high instrumentality (i.e., perform behaviors which lead to desirable outcomes). For example, the basic tenet of expectancy theory is that individuals are motivated to do that which they believe is possible and valuable (Vroom, 1964). Similarly, a classic justification for behavior is that the ends justify the means. This rationale suggests that individuals will be more inclined to commit a questionable act if it is instrumental in producing a desirable outcome than if the act is not instrumental in producing such an outcome.

Anecdotally, stories abound of managers and employees who perform ethically questionable behaviors with the hopes of accomplishing desirable outcomes either for them or for the organization. The role of instrumentality is clearly manifested in the scandal involving impeached Illinois governor, Rod Blagojevich, and his communications as he sought to fill the senate seat vacated by Barack Obama. Reportedly, the governor sought substantial monetary benefits for himself and his wife as well as a cabinet post or ambassadorship in exchange for his improper use of his political power. Other instances

detail less blatantly fraudulent, yet questionable, behavior done with the belief that it would prove instrumental for other stakeholders including one's company. In the context of our study, this logic and case evidence suggests that individuals, groups, and organizations will be more likely to attempt to bluff rivals if they believe it will prove useful and enhance their chances of "winning" the competition.

**Hypothesis 6a:** Participants' beliefs in the instrumentality of bluffing competitors will be positively related to their efforts to do so.

Building on the previous hypothesis, we expect ethical utilitarianism to moderate the instrumentality-bluffing behavior relationship. Utilitarians may well recognize that a practice has questionable moral overtones, yet their behavioral responses may be overridden by a focus on instrumentality. Because ethical utilitarians are concerned primarily with results, rather than rules or processes (Brady, 1990), we expect that a strong utilitarian orientation will further enhance the relationship between a belief in bluffing competitors as a beneficial tactic and their inclinations to utilize the tactic. Numerous case examples exist of decision makers who explicitly calculated non-moral outcomes to justify actions that were questionable from a purely moral perspective. A classic example is the case of Ford when producing the Pinto. In this scenario, executives quantified the monetary gains of placing the fuel tank in a location on the vehicle they knew would lead to accidents and deaths. These gains were juxtaposed with assessments of the value of life, which led to the decision to keep the fuel tank in that questionable location.

Thus, to the extent that misleading others proves advantageous, other considerations will exert less influence over the behavior of high utilitarians. By contrast, low utilitarians are less concerned with the importance of outcomes and thus, the relationship between belief in the instrumentality of bluffing and their actual bluffing behavior should be less pronounced. Stated differently, the relationship between perceived instrumentality and misleading behavior will be stronger for high utilitarians than for low utilitarians.

**Hypothesis 6b:** Ethical utilitarianism will moderate the relationship between perceived instrumentality and individuals' efforts to bluff competitors.

## METHOD

This part of the investigation relied on the same students who completed the survey used in part one of our study. This part of the study began with a laboratory experiment in which students competed in a simulated market-entry game. Upon completion of the simulation,

participants were asked a series of questions about their thoughts and experiences in the game.

## Simulation

Upon arrival to the study, participants were informed that the purpose of the study was to better understand decisions and behaviors in a strategic context and were given instructions for playing a thirty-round simulated market entry game. Specifically, at the start of each round, the game administrator announced the carrying capacity (*c*) for a newly created market, the value of which varied randomly from round to round. Using tokens to signal their intention to competitors, participants were asked (simultaneously) to indicate whether or not they intended to enter the market. After their nonverbal signals were recorded by a second game administrator, the first game instructor then asked everyone to simultaneously reveal their answers to a second question – whether or not they actually entered the market.

Each participant began the game with four points extra credit and were told that the amount of extra credit that they would receive depended on their performance. Performance in the game was a function of the number of players that entered the market each round relative to the market's carrying capacity. Players that chose not to enter received zero points. Those that entered a market earned points if the number of entrants was equal to or less than the announced carrying capacity (i.e., balanced or under capacity). Entering participants lost points when excess competitors entered the market relative to the market's carrying capacity (i.e., over capacity). The nature of this game allowed us to explore two key elements that were not present in the pre-game survey. First, rather than examine ethical perceptions and related behavioral predispositions associated with a hypothetical situation, this portion of our study focused on ethical judgments and actual behavior in a real situation with tangible outcomes linked to performance. Second, whereas in the survey the utility of misleading stakeholders was given (the sale would be made), the utility of bluffing in the competitive game was open to the judgment of the participant. This manipulation enabled us to explore the effect of perceived usefulness of bluffing—a concept we hypothesized as a critical determinant of the effect of utilitarianism. Following the game, participants completed a second survey that tapped their reactions to the game. They were then debriefed on the purpose of the study and thanked for their participation.

## Measures

### *Ethical Orientation*

The relative strength of participants' utilitarian or formalist ethical orientations was measured on the survey administered in part one of the study using the character

traits version of the Measure of Ethical Viewpoints (Brady and Wheeler, 1996).

#### *Pressure to Perform*

Participants' felt need to do well in the game was measured with three items developed for this study. A sample item included, "I wanted to do well in this game because the extra credit was important to me." Principal components analysis with varimax rotation was conducted to determine the factor structure. As expected, items loaded on one factor to explain 59.6% of the variance. Cronbach's alpha for this newly created measure was .66.

#### *Instrumentality*

We developed a three item measure to assess each participant's belief that bluffing competitors was a useful tactic in the game. As expected, items loaded on one factor; however, the inter-item correlation of one item was below the minimum benchmark .40 (Nunnally, 1978) and therefore, was removed. The remaining factor structure explained 77.6% of the variance and had a Cronbach's alpha of .71. Using a 5 point scale (1 = strongly disagree to 5 = strongly agree), the two items used in the analyses were "Deception can help players succeed in this game" and "Players who hide their true intentions probably have a better chance of winning than those who do not hide their intentions".

#### *Perceived Ethicality of Bluffing Competitors*

Three items measured the extent to which participants believed it was ethical to bluff in this competitive situation. A sample item included, "If a player wants to be completely ethical in this game, they should not attempt to influence other players by giving misleading information." Principal components analysis with varimax rotation supported a single dimension, with one factor explaining 57.7% of the variance. Cronbach's alpha for this newly created measure was .63.

#### *Bluffing Behavior*

The extent to which participants' attempted to mislead their competitors was assessed with three items. Principal components analysis with varimax rotation supported a single dimension, with the one factor explaining 72.9% of the variance. Cronbach's alpha for this newly created measure was .81. A sample item included, "In general, I only signaled that I intended to enter a market if I really intended to do so."

## RESULTS

Table 4 presents means, standard deviations, and intercorrelations for all variables in the second part of the study. As before, we controlled for age, gender, and citizenship in all analyses.

**TABLE 4**

### Means, Standard Deviations, and Intercorrelations

Variable	Mean	s.d.	1	2	3	4	5	6	7	8
1. Age	26.54	6.10								
2. Gender	0.55	0.50	.14							
3. Citizenship	0.11	0.31	.09	-.07						
4. Bluffing Behavior	2.92	1.02	.17	.01	-.04					
5. Perceived Ethicality	3.20	0.89	.07	-.07	-.10	-				
6. Pressure to Perform	3.92	0.77	-.16	.06	.01	.04	-.23*			
7. Instrumentality	3.12	0.92	-.05	-.03	.12	.33**	-.15	.40**		
8. Formalism	4.47	0.45	.09	.27**	.05	.05	-.11	.36**	.00	
9. Utilitarianism	4.00	0.59	.00	.04	-.10	.02	-.11	.44**	.08	.47**

*n* = 107

\* *p* < .05

\*\* *p* < .01

We tested our hypotheses with a series of regression analyses. To mitigate multicollinearity concerns, we mean centered the independent variables prior to creating interaction terms and running the regression analyses (Aiken and West, 1991).

Hypothesis 4 predicted a positive relationship between participants' perceptions of the ethicality of misleading competitors and their bluffing behavior. As shown in Table 5, this hypothesis was supported, reflected by the significant relationship between perceived ethicality and bluffing behavior ( $\beta = .29, p < .01$ ).

**TABLE 5****Regression Analysis: Perceived Ethicality on Bluffing Behavior**

Dependent Variable: Bluffing Behavior	Model 1: Controls	Model 2: Direct Effects
Constant		
Age	.17†	.15
Gender	-.01	.01
Citizenship	-.05	-.02
Ethicality		.29**
Adjusted R <sup>2</sup>	.00	.08
Model F	1.09	3.20*

*n* = 107. Standardized regression coefficients are shown

† *p* < .10

\* *p* < .05

\*\* *p* < .01

As shown in Table 6, results failed to support Hypothesis 5a as the relationship between pressure to perform and bluffing behavior was not significant ( $\beta = -.08$ , *p* = ns). However, as predicted by hypothesis 5b, there was

a significant interaction between formalism and pressure ( $\beta = .17$ , *p* < .05). Thus, it appears that pressure does influence bluffing behavior; however, its effect is completely moderated by formalist orientation.

**TABLE 6****Indirect Effects of Ethical Orientation on Bluffing Behavior**

Dependent Variable: Performance (Points in a Round)	Model 1: Controls	Model 2: Direct Effects	Model 3: Interaction
Constant			
Age	.17†	.18†	.15
Gender	-.01	-.00	-.02
Citizenship	-.05	-.10	-.12
Pressure to Perform		-.08	-.14
Instrumentality		.38**	.42**
Formalism			.15
Utilitarianism			-.00
Pressure x Formalism			.17*
Instrumentality x Utilitarianism			.16†
Adjusted R <sup>2</sup>	.00	.11	.13
Model F	1.09	3.76**	2.71**

*n* = 107. Standardized regression coefficients are shown

† *p* < .10

\* *p* < .05

\*\* *p* < .01

Hypothesis 6a predicted that participants' beliefs in the instrumentality of misleading competitors would be positively related to their bluffing behavior. As seen in Table 6, a significant relationship between perceptions of instrumentality and bluffing behavior emerged providing support for this hypothesis ( $\beta = .38$ , *p* < .01). The results also provide support for Hypothesis 6b as utilitarianism interacted with perceived instrumentality to affect bluffing behavior ( $\beta = .16$ , *p* < .10). That is, the relationship between

instrumentality and bluffing is stronger for high utilitarians and weaker for low utilitarians.

**DISCUSSION**

The results of this part of our study indicate that perceived ethicality significantly affects individuals' bluffing behavior in an actual competitive environment with tangible outcomes associated with performance. Findings also show that ethical orientation indirectly

influences individuals' bluffing behavior toward competitors, with formalism moderating the relationship between instrumentality and bluffing.

Contrary to our predictions, we did not find a main effect for pressure to perform on bluffing behavior like we did with instrumentality. The lack of significance was surprising as one would expect that the greater the pressure felt, the more inclined individuals would be to strive for higher performance by possibly engaging in questionable behaviors. It appears, however, that other factors may mitigate this relationship, including perhaps the perceived risk of the behavior. It may be that as participants felt pressure to do well, they simultaneously feared that bluffing might result in retribution from other players which would hurt their chances to do well in the game. This reasoning could negate the tendency for high-pressured individuals to engage in bluffing. Most notable, however, is the finding that pressure exerted an influence on bluffing behavior, but that influence was moderated by ethical formalism. This pattern of results further magnifies the importance of ethical orientation, as formalism may blunt the otherwise powerful force pressure can have on individual behavior.

## CONCLUSION

As a whole, the results of this study offer important contributions to both research and practice. Ethical dilemmas often involve misconduct and deception of one form or another. Interpretations of these acts may not be black or white, but rather fall in a gray area and depend on a number of contingencies. In fact, philosophical debate over the ethicality of bluffing engenders little agreement. While this debate is important, the literature is devoid of research examining the role individual differences with regards to the ethicality of bluffing in business. Our research moves the discussion forward by asking first, whether ethical orientation helps predict different views on the practice of bluffing and second, how those views influence individuals' willingness to bluff and subsequent bluffing behavior in a competitive context. The majority of our results suggest that the answer is yes to both questions. Indeed, it is reasonable to expect that individuals interpret, apply, and balance ethical norms in different ways in light of their own values and life experiences. Insights gleaned from the person-situation debate also indicate that behavior results from both environmental and individual causes.

The two-part study reported here therefore begins to fill an important gap in the literature by providing one explanation for questionable behavior. Consistent with previous research, our results indicated that formalism and utilitarianism are two independent dimensions of individuals' ethical orientation (Brady and Wheeler, 1996; Schminke and Wells, 1999). Correspondingly, both have the ability to exert important influences on ethical judgments and behaviors; however, they do so through divergent avenues and in concert with different constructs.

Our findings indicate that individual differences, specifically ethical predispositions, influence how people perceive bluffing when targeted at select organizational stakeholders. Results further indicate that formalist and utilitarian orientations interact with contextual factors to help explain individuals' bluffing attitudes, intentions, and behavior. A complete understanding of the ethical implications of bluffing therefore requires that research consider individual difference variables in addition to features of the environment both within and beyond the organization.

Practically speaking, it would behoove managers charged with overseeing company ethics and compliance activities to consider the individuals involved as well as the programs themselves. Awareness of potential differences may help practitioners implement, communicate, and train ethics programs in ways that generate optimal response. Managers can then use knowledge of individual differences to tailor their communications regarding the company's ethical values and expectations with individual employees. For example, in our study, high utilitarians were concerned with instrumentality and outcomes. This suggests that managers may enhance utilitarians' acceptance of ethics training to the extent the program focuses on outcomes and consequences as opposed to moral rules. In contrast, our findings suggest that such communication may do little to enhance acceptance among high formalists. Ethics training among formalists may be more effective to the extent that emphasis is placed on moral principles vis-à-vis outcomes and consequences. Clearly, elements of both outcomes and morality may be present in many ethics-related communications and training programs, yet the emphasis they receive in communications with employees may vary as a function of their ethical orientation.

Consideration of the organization's ethical values and industry standards may also be an essential starting point to improving our understanding of not only bluffing in business but also what type of individual will best fit in the organization. At some level, deceptive signaling reaches a level of gravity where it may be considered unethical in any organization. Frequently, however, the degree of ethicality may be indeterminate and somewhat industry dependent. In such cases, organizations must clearly identify and define their values and tolerance levels. If some degree of bluffing is an accepted industry norm and is encouraged by the organization, then high utilitarians may be a more appropriate fit than high formalists who may be uncomfortable engaging in such practices. This fit, interestingly, will also entail an element of risk for the organization as high utilitarians not only reported a greater willingness to engage in competitive bluffing but also indicated a greater willingness to mislead their own company.

As with all research, this study has its limitations. Most notably, we measured perceptions of ethicality, pressure, and instrumentality as well as bluffing behavior within the

same post-game survey thereby raising the issue of common method variance. We believe this concern is mitigated some by the fact that ethical orientation was measured on a separate pre-game survey. Our factor analyses similarly alleviate some of this concern as results indicated that participants distinguished between the constructs. Nonetheless, future research should attempt to assess these variables with different instruments.

Relatedly, our study is limited by the use of self-reports to measure both the individuals' ethical views on and stated willingness to mislead important organizational stakeholders in the first part of the study. This methodological approach, however, corresponds to that used in prior research interested in the relationship between attitudes, intentions, and behavior (e.g., Ajzen and Madden, 1986; Flannery and May, 2000; Beck and Azjen, 1991). Moreover, the objective of the hypothesis in which this data applied was not to differentiate between individuals' attitudes and intentions per se, but rather (as demonstrated in the first part of the study) to examine whether their attitudes and intentions differed as a function of the target of the bluff and how this was related to individuals' ethical orientation.

Our sample size might also be viewed as a limitation. Thus, while the size was acceptable for the number of predictor variables considered, our results would likely have benefited from the statistical power that accompanies larger samples (Cohen and Cohen, 1975). It is plausible that with a larger sample size all or more relationships would have been statistically significant.

Finally, the cross-sectional nature of our data collection does not permit us to thoroughly explore some of the causal links suggested by the hypotheses. Using a longitudinal format, future research might for instance, be able to examine how signalers' reputation impacts bluffing action and response in a competitive context.

This study suggests several potential avenues for future research efforts. First, we examined only the role of individuals' ethical orientation. Additional individual difference variables, such as stage of moral development or Machiavellianism, may influence beliefs about bluffing as well as willingness and actual bluffing behavior. Future research should examine these possibilities. Second, future research is needed to explore the effects of other contextual variables on the observed relationships. Above, we suggested that the perceived risks of bluffing might partially account for the lack of a significant main effect for pressure to perform on bluffing behavior. Although we did not measure perceived risk, future research could explore this possibility.

Finally, future research that considers the relationships between corporate ethics policies and programs and ethical orientation should prove insightful. It may well be that the effectiveness of different policies and programs might be moderated by ethical orientation. Similarly, the approach organizations take to ethics might well serve as a moderator

of the relationship between individuals' ethical orientation and their resultant ethical behavior.

We are optimistic that these ideas as well as the implications of our findings will spark interest in others to take research on the issue of bluffing in business in new and unique directions. Research along these lines will expand our understanding of bluffing behavior including the effects of individual differences on bluffing in business. Ultimately, we are hopeful that this stream of research will enhance our understanding not only of bluffing behavior, but also of the relationship between individuals' ethical orientation and their attitudes and behaviors when dealing with an ever increasing assortment of ethical gray areas brought on by today's changing business environment.

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**G. Stoney Alder** is an assistant professor of management at the University of Nevada, Las Vegas. He received his Ph.D. in Organization Management with emphases in Organizational Behavior and Human Resource Management and a minor in Organization Communication from the University of Colorado at Boulder. His current research interests include organizational justice, business ethics, and performance monitoring. He has published in *Organizational Behavior and Human Decision Processes*, *Human Resource Management Review*, *Journal of Business Ethics*, *Management Communication Quarterly*, *Journal of Applied Communication Research* and others.

**Rebecca M. Guidice** is an assistant professor of management in the College of Business at the University of Nevada, Las Vegas. She earned her Ph.D. from Washington State University. Her current research interests include issues related to corporate governance, entrepreneurship, accountability, and competitive bluffing. She has published in many peer-reviewed journals including the *Journal of Management*, *Journal of Business Ethics*, and *Human Resource Management*.