

Direct Selling Ethics at the Top: An Industry Audit and Status Report

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Unethical conduct by salespeople contributes to loss to the bottom line directly through misuse of expense reports and indirectly through lost customers who are disenchanted with questionable business practices. Self-regulation by industry has become an important strategy in improving the ethical environment of the industry as well as to establish standards that meet or exceed existing statutory or regulatory requirements. Audits of industry regulatory programs provide a mechanism to uncover weaknesses, heighten awareness of the importance of ethics and allow for improvements to be made and risks reduced. This study audits the Direct Selling Industry's code of ethics as it complies with the Federal Sentencing Guidelines (FSG) and establishes a benchmark against which subsequent ethics research in the Direct Selling Industry can be compared.

A Jaguar convertible rental car; a \$2300 round of golf for four people; season baseball tickets for \$6000: These statistics regarding expense account abuses were reported in a recent *Sales and Marketing Management* survey (Strout 2001) along with estimates from the U.S. Department of Commerce of employee theft of \$60 billion annually from Corporate America. Sales managers and executives, in light of these findings, should have a high degree of concern about how the ethics of their sales people are affecting the company's bottom line as well as customer relationships. The ethics of the Direct Selling industry is a topic that is much discussed. Part of the reason for this is that Direct Selling, despite being the oldest method of commercial distribution, is still very misunderstood (Peterson and Wotruba 1996). Direct Selling is defined as "...face-to-face selling away from a fixed retail location" (Peterson and Wotruba 1996, p. 2).

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Often, Direct Selling is confused with Direct Marketing (Bauer and Miglauths 1992), which is simply the marketing of goods and services directly to consumers through "the use of the telephone and non-personal media to communicate product and organizational information...who then can purchase them via mail, telephone, or the Internet" (Pride and Ferrell 2000, p. 411) and is often equated with the illegal activity known as pyramid schemes (Ella 1973; McLellan 1988; Barkacs 1997). Mary Kay Cosmetics and Avon are two examples of direct selling firms. Salespeople in direct selling organizations are considered independent contractors versus being employees of the company. Such independence might suggest that organizations would have less control or impact on the ethics of the sales force. Therefore, associational and organizational directives that have positive effects on the ethical environment of direct sellers could be seen as a greater accomplishment than in other organizations or industries with a more captivated sales force.

Most corporations in the United States have established ethics programs in compliance with the Federal Sentencing Guidelines for Organizations (Robertson and Fadil 1998). These guidelines require that organizations develop compliance programs to prevent, detect, and deter illegal and/or unethical conduct. Many trade and professional associations have been active in self-regulation (Milne 1997). The Direct Selling industry has been very active in self-regulation for over two decades through the development, implementation, and enforcement of codes of ethical behavior and the promotion of ethical behavior among industry representatives (Association Management 1989; Wotruba 1995; Loe and Chonko 1999). The Association undertook self-regulation initiatives because, as Hemphill (1992) observed, firms or industries self-regulate to establish standards that meet or exceed existing statutory or regulatory requirements. In the 1960s, Direct Selling was gaining in popularity, but, because legitimate Direct Sellers represented a relatively new business methodology, there existed a need to establish new ethical guidelines (e.g. the distinction between legitimate Direct Sellers and pyramids). As a result, the Direct Selling Association (DSA) developed standards of behavior to assist their member companies in complying with and exceeding regulatory and statutory requirements.

Skeptics view association codes of ethics as self-serving and inwardly focused (Tucker et al. 1999). Ethics audits have

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Table 1
The Federal Sentencing Guidelines, the DSA Code of Ethics and the Current Ethics Audit

<i>Federal Sentencing Guidelines Element</i>	<i>The DSA Code Provision</i>
Develop a code of conduct that is capable of reducing misconduct	In existence since 1970; appears to be effective as evident in literature
High level personnel must be responsible for compliance program (e.g., a compliance officer) and support the program (e.g., top management)	The DSA Code has a provision for a compliance officer
Discretionary authority in the organization must not be given to persons with a propensity to engage in illegal conduct	The DSA code has served to have companies ejected from membership
Standards/procedures must be communicated to employees through training and other forms of communication	The DSA code is distributed to DSA members through a variety of media and programs
Organizations must take reasonable steps to achieve compliance with standards by monitoring internal auditing systems to detect misconduct	The DSA code specifies compliance procedures
Standards and punishment must be enforced consistently	The DSA code specifies remedies
A plan to review/modify the compliance program is needed to demonstrate continuous improvement	The DSA Code has a provision for amendment and has been amended numerous times

been suggested as means by which to alleviate this concern. An annual audit of an organization's ethics has been asserted to be as important as an annual financial audit (Gray 1996).

This paper conducts an external examination, or audit, of the Direct Selling industry association code of ethics. Such an examination is consistent with Weaver's call (1993), who noted that ethics research should address the development of theoretical models reflective of the development of codes of ethics and examine the developmental character of code usage and code consequences which is sensitive to idiosyncrasies of specific organizational settings. The present study responds to this mandate and is conducted from the perspective of the Direct Selling industry's corporate officers and with reference to the Federal Sentencing Guidelines (FSG). This study addresses: 1) the degree to which the DSA code complies with Federal Sentencing Guidelines mandates concerning a code of ethics, 2) the degree to which top management has assumed responsibility for compliance (Federal Sentencing Guideline), and 3) corporate officers' perceptions of the DSA code as it pertains to Federal Sentencing Guidelines 3 through 7. The findings should provide a benchmark for subsequent ethics research in the Direct Selling industry.

Ethics Audits

Ethics audits are important to better defining the ethical environment of the organization and understanding areas in need of attention. One part of an ethics audit is a survey administered to key internal and external constituents that have a professional relationship with the organization (Allen 1995). However, such audits are only a beginning and are not without their difficulties. Schaeffer and Zaller (1999) observe that ethics training, legal inspections, codes of conduct and consistent reaction to ethics violations are prone to several shortcomings including the following:

- They are reactive, not proactive.
- They emphasize the short-term and the obvious.
- They lack in self-reflection, being descriptive or prescriptive.

- They focus on the individual decision maker as separate from the organization's core values as they are based on individual phenomena such as moral reasoning, personal values, decision styles or moral philosophies.

They call for an ethics audit, which "...must include the dimensions of the organization, the social system, and the milieu in which the organization operates" (p. 46). Harris (2000) observes that few associations have mechanisms in place that allow for audits. Even though this assertion has a consultant's perspective, Harris notes that "Upon completion, weaknesses, will be noted, staff will be reacquainted with the importance of procedures, improvements can be made, and risks can be reduced" (p. 102).

The approach used to conduct the Direct Selling Industry audit is generalizable to any sales organization (company or association) having a code of ethics. Since all sales organizations must comply with the broad mandate of the Federal Sentencing Guidelines (FSGs), the comparison of the DSA code provisions to the FSGs represents an early attempt at specifying a framework for study applicable to sales organizations.

The Federal Sentencing Guidelines (FSG)

The FSGs were developed in response to increasing incidents of white-collar crime and the determination that responsibility for such crimes lay with the organization (Paine 1994). Kaplan et al. (1993) and Ferrell et al. (1998) provide comprehensive overviews of the genesis of the guidelines. Simply stated, the FSGs require all organizations to develop a compliance program designed to prevent, detect and deter individuals from engaging in illegal and/or ethical misconduct.

The first audit step established that elements of the DSA code of ethics address each of the three components of a compliance program. The code has provisions for code enforcement and for specific industry related activities such as pyramid schemes. As noted earlier, the code has been revised recently. Finally, the DSA code of ethics was created because of ethics related developments in the industry.

According to the U. S. Sentencing Commission (1994), an effective compliance program consists of seven elements pre-

sented in Table 1. The next stage of the audit process required a comparison of DSA code provisions with specific elements of the FSGs. As shown in Table 1, the DSA code has provisions that fit all seven of the FSGs for compliance.

The Impact of Corporate or Industry Codes of Ethics

The first element in the FSGs is the development of a code of ethics. Clearly, the Direct Selling industry is in compliance here as the DSA has a written code of ethics. A body of evidence still exists that casts doubt that codes of ethics, by themselves, are effective (e.g., Ford et al. 1982; Chonko and Hunt 1985; Cleek and Leonard 1998). Murphy (1995) notes that a major criticism of codes is the lack of enforcement, the lack of a mechanism for dealing with violations.

Top Management's Role Regarding Ethics

The second element in the FSGs concerns the responsibilities of top management for a compliance program. Top management and other officers in organizations play a crucial role in developing standards for ethical conduct, hence the rationale of our survey of corporate officers. The cause of ethical failure in organizations is often rooted in culture, specifically the failure of leaders to promote ethical ideals (Brien 1998). The influence of other employees and especially top management is probably the greatest factor in setting the tone for the individuals' business ethics (Ferrell and Gresham 1985; Ferrell et al. 1989; Trevino and Youngblood 1990). Lower level managers and employees take their cues for appropriate behavior from the actions and rhetoric of superiors that will suggest the expectations that managers have for subordinates.

We have already observed (Table 1) that the provisions in the DSA code of ethics incorporate all seven elements of the FSGs in its code of ethics. To address the other six FSGs, we sought the opinions of officers of DSA member companies regarding the DSA code of ethics.

Methodology

Surveys were sent to the 1700 Direct Selling corporate officers from about 150 firms listed in the DSA publication, *An Insider's Guide to the DSA*. This publication is a directory of corporate officers from companies that are members of the DSA.

A stamped, pre-addressed envelope and a cover letter requesting participation accompanied the survey from the researchers. A second mailing occurred approximately seven working days after the first mailing. In addition to the cover letter from the researchers, a cover letter from the President of the DSA accompanied each survey. Also, the President of the Association alerted members to the survey in his monthly newsletter that arrived in offices approximately two weeks before the first survey mailing.

We received 286 useable responses (16.8 percent). Response rates to the Center for Business Ethics surveys (1992, 1986) were 24 percent and 28 percent, while the response rate to the Morf et al. (1999) survey was 32.6 percent. The lower response rate may be attributed to the six-page length of our survey. As well, multiple recipients in the firms were contacted. Non-response bias was examined using the procedures specified by Armstrong and Overton (1977). Demographic comparisons between first and second wave respondents yielded no significant differences. Top Executives

(CEO's/Presidents/VP's) made up 20 percent of the respondents. More than 60% of the respondents were over 40 years of age. The majority were college graduates (77.3%). Over 55% of respondents had been in direct selling for more than 11 years, and 57% had been with only one company.

Results

Results from the survey are presented in Tables 2 through 5. These tables relate to the following issues: opportunities for unethical behavior, ethics and behavior, standards of behavior, and ethics issues related to the FSGs.

Opportunities for Unethical Behavior

We asked Direct Selling executives to indicate their feelings about opportunities for unethical behavior. These findings are presented in Table 2 and summarized below:

- Executives feel that opportunities for unethical behavior in Direct Selling may have lessened.
- There is some feeling that opportunities for unethical behavior in Direct Selling are less frequent than in other industries, other types of selling and society as a whole.
- Fifty-five percent agree that DSA member executives in Direct Selling do face opportunities to engage in unethical behavior, but these are less than for most non-DSA member company executives.
- Forty-eight percent of executives do face opportunities for unethical behavior.

In view of the literature concerning top management actions and ethics, we sought to examine responses of two subgroups in our sample – Top executives and other corporate officers. One aspect of top management responsibilities is the ethical tone set by top management in organizations (Chonko and Hunt 1985). As shown in Table 2, CEOs/Presidents/VPs report similar feelings to other corporate officers (e.g., marketing directors, ethics officers, sales directors) concerning ethics opportunities. Only one significant difference in response occurred. Other corporate officers felt more strongly that executives in their companies have a number of opportunities to engage in unethical behavior than did their top management counterparts. These findings suggest a degree of success in the effectiveness of the DSA's efforts to reduce unethical behavior through self-regulation.

Ethics and Behavior

In this study, we employ the methodology used by Chonko and Hunt (1985) to ascertain how Direct Selling executives view unethical behavior in their companies and industry. These findings are reported in Table 3 and summarized below:

- Twenty-two percent agree that executives in the respondent's company sometimes behave unethically, but responses concerning the ethical behavior of non-DSA member companies were mixed with 43.9 percent of executives agreeing that executives in non member DSA companies engage in unethical behavior.
- Fourteen percent of executives agreed that executives in other DSA member companies sometimes engage in unethical behavior.

Table 2
Perceptions of Direct Selling Corporate Officers Regarding Opportunities for Unethical Behavior

<i>Opportunities for Unethical Behavior Issues</i>	<i>Mean¹</i>	<i>Std Dev</i>	<i>Pct Agree²</i>	<i>Pct Agree³</i>	<i>Top⁴ n=57</i>	<i>Other⁵ n=229</i>	<i>Sig⁶ p ≤</i>
Opportunities for unethical behavior are becoming more frequent in direct selling	3.85	1.55	5.8%	36.5%	3.91	4.21	NS
Opportunities for unethical behavior are less frequent in direct selling than in business in general	4.76	1.55	3.6%	16.5%	4.81	4.74	NS
Opportunities for unethical behavior are less frequent in direct selling than in other types of selling	4.91	1.43	13.3%	55.0%	5.05	4.87	NS
Executives in the DIRECT SELLING INDUSTRY that are not members of the DSA have a number of opportunities to engage in unethical behaviors	4.80	1.36	9.9%	55.5%	4.96	4.76	NS
Executives in DSA member companies have a number of opportunities to engage in unethical behaviors	4.30	1.57	5.1%	48.7%	4.57	4.23	NS
Executives in my COMPANY have a number of opportunities to engage in unethical behaviors	3.79	1.83	3.6%	44.2%	3.37	3.90	.05
Opportunities for unethical behavior are more frequent in direct selling than society in general	3.38	1.57	1.1%	25.3%	4.36	4.69	NS

¹Mean score on a seven point scale in which 1=strongly disagree with the statement and 7=strongly agree with the statement

²Percent of respondents who strongly agree with the statement

³Percent of respondents who either strongly agree, agree, or slightly agree with the statement

⁴Respondents with titles of CEO, President or Vice President

⁵All other corporate officers

⁶Level of Significance resulting from t-tests between means of top managers and other managers

Table 3
Perceptions of Direct Selling Corporate Officers Regarding Ethics and Behavior

<i>Ethics and Behavior Issues</i>	<i>Mean¹</i>	<i>Std Dev</i>	<i>Pct Agree²</i>	<i>Pct Agree³</i>	<i>Top⁴ n = 57</i>	<i>Other⁵ n = 229</i>	<i>Sig⁶ p ≤</i>
Executives in my COMPANY sometimes engage in behavior I consider unethical	2.58	1.88	5.0%	22.2%	2.00	2.73	.01
Executives in direct selling companies that are not members of DSA rarely engage in behavior I consider unethical	3.29	1.22	10.3%	43.9%	3.25	3.30	NS
Executives in other DSA member companies sometimes engage in behavior I consider unethical	3.42	1.33	1.9%	14.1%	3.09	3.51	.05

¹Mean score on a seven point scale in which 1 = strongly disagree with the statement and 7 = strongly agree with the statement

²Percent of respondents who strongly agree with the statement

³Percent of respondents who either strongly agree, agree, or slightly agree with the statement

⁴Respondents with titles of CEO, President or Vice President

⁵All other corporate officers

⁶Level of Significance resulting from t-tests between means of top managers and other managers

Here, other corporate officers reported a higher incidence of unethical behavior than did CEOs/Presidents/VPs, both in their companies and among DSA member companies. However, in both cases their perceptions of the frequency of unethical behavior were not pervasive.

Ethical Standards

This study also sought to assess the standards exhibited by leaders in the Direct Selling industry. In Table 4, findings concerning ethical standards are presented. The following is a brief synopsis of the findings regarding industry and organizational ethics standards:

- Ninety-seven percent of executives report that peers in their own companies have high ethical standards and 83.1 percent have similar beliefs concerning their own sales forces.
- Sixty-four percent of executives feel that their company standards are higher than those of the average DSA member company but they also feel that their company standards are similar to those of non-DSA member Direct Selling companies.
- Seventy-five percent of executives view DSA member companies as having high ethical standards.

Table 4
Perceptions of Direct Selling Corporate Officers Regarding Ethical Standards

<i>Ethical Standards Issues</i>	<i>Mean¹</i>	<i>Std Dev</i>	<i>Pct Agree²</i>	<i>Pct Agree³</i>	<i>Top⁴ n=57</i>	<i>Other⁵ n=229</i>	<i>Sig⁶ p ≤</i>
The executives in my company have high ethical standards	6.26	1.21	56.6%	97.2%	6.70	6.14	.01
The sales representatives in my company have high ethical standards	5.53	1.21	16.2%	83.1%	5.81	5.45	.05
My company has higher ethical standards than other companies in the direct selling industry	5.19	1.52	23.2%	64.0%	5.55	5.11	.10
Direct selling companies that are not DSA members have lower ethical standards	4.27	1.48	7.0%	38.1%	4.57	4.20	.10
Generally, DSA member firms have high ethical standards	5.16	1.23	9.8%	74.9%	5.26	5.13	NS
Sales forces in DSA member companies have high ethical standards	4.40	1.18	2.2%	49.3%	4.47	4.38	NS
Compared to other industry associations, DSA members have higher ethical standards	4.48	1.27	5.3%	43.2%	4.75	4.41	.10

¹Mean score on a seven point scale in which 1=*strongly disagree* with the statement and 7=*strongly agree* with the statement

²Percent of respondents who strongly agree with the statement

³Percent of respondents who either strongly agree, agree, or slightly agree with the statement

⁴Respondents with titles of CEO, President or Vice President

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⁶Level of Significance resulting from t-tests between means of top managers and other managers

- Some executives express a degree of concern about the ethical standards of DSA member company sales forces.

Regarding standards, differences between CEOs/Presidents/VPs and other corporate officers occurred in five of the seven items (three of the items were significant at the .10 level). These items included ethics standards of executives, sales representatives, company vs. industry standards and standards of DSA member companies vs. non-member companies with CEOs/Presidents/VPs showing stronger agreement on each issue. These findings may suggest that higher-ranking members in the organization have a more idealistic view or feel a greater need to put a "good face" on the industry. This also suggests a need for further exploration of the differences in perceptions in higher-level officers and those lower in rank in the firm.

Federal Sentencing Guidelines Issues

In order to gain a better understanding of executives' broader viewpoints concerning the DSA code and its effectiveness, we also asked Direct Selling executives to comment on a number of general ethics-related issues as they relate to the FSGs. Their responses are presented in Table 5 and summarized below:

FSG 2. The second FSG concerns responsibility for a compliance program and support for that program. There is high awareness (87.6 percent are aware) of the identity of the individual responsible for code enforcement.

FSG 3. The third FSG concerns the avoidance of giving discretionary authority to those with a propensity to engage in illegal conduct. The examination of this issue is not directly amenable to survey research. In Table 5, six questions are presented as indicative of compliance with this guideline. Direct Selling corporate officers feel that there is a difference between ethics and the law, suggesting that ethics operates on a different (and presumably higher) plane and these officers are willing to take the high road. They also report that ethics considerations are important in marketing decisions and that there is a linkage between ethical behavior and profitability.

Finally, executives generally feel that ethical issues can be resolved and that what is ethical does not vary from one situation to the next. Interestingly, other corporate officers felt more strongly about the positive relationship between ethics and profits than did CEOs/Presidents/VPs. Both groups felt strongly that ethics are important in marketing decisions, but CEOs/Presidents/VPs felt a little more strongly about this issue.

FSG 4. This guideline concerns communication of the code of ethics. The following is a summary of the findings concerning communication of the DSA code of ethics.

- Ninety-six percent of Direct Selling executives from DSA member companies are aware of the intent of the DSA code of ethics.
- Most executives agree that the DSA code of ethics is widely publicized.
- Few executives agree that customers of Direct Selling companies are aware of the industry code of ethics.
- Eighty-six percent of DSA member company executives are very knowledgeable of the content of the DSA code of ethics.
- Ethics is perceived to be strongly promoted in individual DSA member companies, and there is some agreement that ethics is strongly promoted in the industry and that publicizing the DSA code of ethics helps companies in the marketplace; there is strong agreement that publicizing the DSA code of ethics helps the industry in the marketplace.
- Responses concerning the amount of ethics training provided for salespeople were mixed. There is agreement that adequate ethics training is provided for executives.
- Most executives (91.9 percent) agree that top management has effectively communicated that ethics violations will not be tolerated and that they know what is considered in appropriate behavior (91.4 percent) and that they are aware of the guidelines that guide behavior (86.9 percent).

Table 5
Perceptions of Direct Selling Corporate Officers Regarding Codes of Ethics

<i>Code of Ethics Issues</i>	<i>Mean¹</i>	<i>Std Dev</i>	<i>Pct Agree²</i>	<i>Pct Agree³</i>	<i>Top⁴ n=57</i>	<i>Other⁵ n=229</i>	<i>Sig⁶ p ≤</i>
<i>Element 1 Code of Conduct</i>							
My company has policies with regard to ethical behavior	6.22	1.30	53.9%	91.9%	6.27	6.20	NS
<i>Element 2 of the FSG: Code Enforcement</i>							
I know who is responsible for code enforcement in my company	5.93	1.32	40.8%	87.6%	6.19	5.86	.10
<i>Element 3 of the FSG: Discretionary Authority</i>							
If it is legal it is okay to do it	2.76	1.50	1.5%	16.1%	2.68	2.78	NS
It is acceptable to push the law to its limits	2.94	1.60	0.7%	22.9%	3.00	2.93	NS
In my company there is a direct positive relationship between ethical practices and company profits	4.83	1.70	16.8%	59.3%	4.49	4.92	.10
In my company, ethics are important in marketing decisions	5.73	1.34	30.4%	87.9%	6.11	5.62	.05
Questions of what is ethical for everyone can never be resolved since what is moral or immoral is up to the individual	2.47	1.40	0.8%	6.5%	2.51	2.47	NS
What is ethical varies from one situation and society to another	3.32	1.83	2.9%	36.3%	3.48	3.30	NS
<i>Element 4 of the FSG: Communications</i>							
I consider myself knowledgeable of the content of the DSA code of ethics	5.62	1.22	25.0%	86.2%	5.98	5.52	.05
Ethical conduct is strongly promoted in the direct selling industry	5.11	1.50	15.3%	73.1%	5.11	5.09	NS
Publicizing the DSA code of ethics helps the direct selling industry in the marketplace	5.88	1.19	33.5%	88.5%	6.07	5.83	NS
The DSA Code of Ethics has received widespread publicity in my company	4.83	1.74	19.4%	60.1%	5.18	4.75	.10
Most of my company's customers are aware of the DSA code of ethics	3.46	1.70	3.6%	26.8%	3.54	3.44	NS
I am aware of the intent of the DSA's code of ethics	6.29	0.75	42.7%	96.4%	6.49	6.24	.05
Ethical conduct is very strongly promoted in my company	6.00	1.42	47.1%	87.0%	6.12	5.97	NS
Publicizing the DSA code of ethics helps my company in the marketplace	5.16	1.41	16.5%	69.3%	5.32	5.12	NS
I am pleased with the amount of ethics training that our company provides for our salespeople	4.32	1.62	8.0%	47.1%	4.39	4.30	NS
I have been pleased with the amount of ethics training that my company has provided me	4.74	1.47	12.8%	54.9%	4.93	4.69	NS
Sales representatives in my company have found that the DSA code of ethics is very useful to them personally	4.29	1.44	7.1%	39.2%	4.11	4.34	NS
Top management in my company has let it be known in no uncertain terms that unethical behavior will not be tolerated	5.91	1.41	42.9%	86.1%	6.30	5.75	.05
I know what is considered inappropriate behavior in my company	6.13	1.24	43.7%	91.4%	6.54	5.97	.01
I am aware of informal or formal codes and guidelines that guide the actions of direct sellers	5.79	1.31	31.8%	86.9%	5.72	5.83	NS
<i>Element 5 of the FSG: Monitoring</i>							
In general, the ethical environment among DSA member companies is much better than it was ten years ago	5.07	1.44	17.9%	59.0%	5.12	5.05	NS
In general, the ethical environment in the direct selling industry is much better than it was ten years ago	5.03	1.42	15.3%	64.2%	5.07	5.01	NS
In my company, there is a difference between the "official" line and how things usually work	2.91	1.62	2.2%	22.2%	2.21	3.09	.01
<i>Element 6 of the FSG: Punishment</i>							
Unethical conduct is strongly punished in the direct selling industry	4.16	1.58	3.7%	33.9%	4.05	4.19	NS
Unethical conduct is strongly punished in my company	5.45	1.50	25.0%	81.0%	5.98	5.31	.01

(continued)

Table 5 (continued)
Perceptions of Direct Selling Corporate Officers Regarding Codes of Ethics

<i>Code of Ethics Issues</i>	<i>Mean¹</i>	<i>Std Dev</i>	<i>Pct Agree²</i>	<i>Pct Agree³</i>	<i>Top⁴ n=57</i>	<i>Other⁵ n=229</i>	<i>Sig⁶ p ≤</i>
<i>Element 7 of the FSG: Review/Modification</i>							
The DSA code of ethics should be expanded to address more ethical issues than it now covers	4.14	1.35	4.0%	34.4%	4.23	4.11	NS
My company strictly enforces a code of ethics	5.79	1.35	34.7%	85.7%	6.12	5.67	.05
My company strictly enforces policies regarding ethical behavior	5.62	1.34	26.9%	91.8%	6.03	5.47	.01

¹Mean score on a seven point scale in which 1=*strongly disagree* with the statement and 7=*strongly agree* with the statement

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⁴Respondents with titles of CEO, President or Vice President

⁵All other corporate officers

⁶Level of Significance resulting from *t*-tests between means of top managers and other managers

CEOs/Presidents/VPs expressed slightly higher levels of awareness of the intent of the DSA code of ethics than did other corporate officers. Similarly, CEOs/Presidents/VPs reported wider company publicity of the DSA code of ethics than did other corporate officers, and reported being more aware of what behaviors are considered inappropriate. They also expressed stronger agreement with top management's stance on tolerance of unethical behavior than did their other corporate executive counterparts.

FSG 5. This guideline concerns the taking of reasonable steps to ensure compliance. First, the DSA code, as already noted, has provisions that correspond with all seven FSGs. In addition, in Table 5, Direct Selling corporate officers report that the ethical environment is improved over that which existed ten years ago, and they feel that there is little difference between the "official" line and what is actually done in their respective organizations. Both of these would suggest that Direct Selling companies have taken steps toward compliance. Interestingly, other corporate officers felt that there was more of a difference between the "official" line and how things really work than did top officers.

FSG 6. The sixth FSG concerns enforcement of the code of ethics. The following is a summary of the findings concerning enforcement of the DSA code of ethics.

- Eighty-one percent of executives report that unethical conduct is consistently punished in their individual companies, while only 33.9 percent of executives report that companies consistently punish unethical conduct in general within their industry.

CEOs/Presidents/VPs felt more strongly about enforcement than did the other corporate officers who participated in this study.

FSG 7. The seventh FSG addresses the monitoring of the code of ethics and, indeed, of the entire sales program. Partly this effort involves assessment of the effectiveness of codes of ethics. The following represents the feelings concerning the review and modification of the DSA code of ethics.

- Results are mixed concerning whether or not the code should be expanded to incorporate other ethics -related issues.
- Most executives (85.7 percent) feel that their companies enforce codes of ethics.
- Most executives (91.8 percent) feel that their companies enforce policies regarding ethical behavior.

In the latter two findings above, top CEOs/Presidents/VPs felt more strongly about enforcement issues than did their other corporate officer counterparts, although both groups were quite positive about enforcement.

Discussion

This study was initiated to report on industry executive reactions to an association code of ethics and to report on the frequency of ethical problems facing Direct Selling executives as well as their perceptions of ethics code issues as they relate to the FSGs. Ethics codes are developed as mechanisms to bring some uniformity to the ethical performance of employees (Gatewood and Carroll 1991). Ethics codes and their implementation and enforcement are also reflective of an organization's willingness to resist those factors that can undermine the ethical behavior in an organization.

One question this study addresses is the extensiveness of ethical problems in the Direct Selling industry. The findings indicate that Direct Selling executives perceive fewer opportunities to engage in unethical behavior in their firms than in their industry. They do, however, feel that there are opportunities for unethical behavior in Direct Selling. They also report less frequent participation in unethical behaviors in their companies than in the direct selling industry as a whole. These findings are consistent with those of Chonko and Hunt (1985) and also Weaver and Ferrell (1977), who reported that "respondents believe they make decisions in an organizational environment where peers and top management have lower ethical standards than their own" (p. 480). On the issue of standards, Direct Selling executives reported higher standards than salespeople and other companies in the industry. In short, respondents are saying that they are more ethical than others.

Another question addressed in this study concerned executives' perceptions of the DSA code of ethics as it relates to provisions in the FSGs. The effectiveness of codes in promoting ethical behavior has received much attention but findings are mixed (e.g., Chonko and Hunt 1985; Posner and Schmidt 1987). There is agreement that the employees must know codes before the codes can impact behavior (Maes et al. 1998). Respondents reported that they know who is responsible for code enforcement (FSG step 2) in their companies. CEOs, Presidents, and VPs reported a higher level of this knowledge than did other corporate officers. This familiarity is not surprising in that CEOs, Presidents, and VPs set the tone for the

ethical climate of the companies they represent and also designate who serves as ethics officer in their companies. Clearly, the DSA code of ethics fulfills the awareness criterion according to the results of the survey presented here. As shown in Table 5, there is a high level of code awareness among Direct Selling corporate officers. However, as also shown in Table 5, the DSA can improve in external communications of the code, as called for by Murphy (1995), as respondents feel that their customers are largely unaware of the DSA code of ethics. In general, respondents seemed to indicate that the DSA code of ethics has been promoted widely (though mainly in their own companies and the industry), a finding that is in accord with one of the mandates of the Federal Sentencing Guidelines. Regarding the Federal Sentencing Guideline concerning monitoring of the code, about one-third of respondents felt that expansion of the code was needed.

With reference to the FSGs on enforcement, respondents felt that unethical conduct is more likely to be punished in their companies than in the industry. To be effective, codes of ethics should emphasize daily routines and responsibilities (Ferrell et al. 1988).

Finally, DSA executives reported that the ethics environment in member companies and in the Direct Selling industry has improved. Some of this improvement likely has occurred as a result of the development and enforcement of the DSA code of ethics. Improvement is also likely to have occurred as a result of company efforts to foster ethical behavior. Finding that Direct Selling executives seem to recognize the distinction between legal and ethical decisions is encouraging. Virtues such as honesty, fairness and truthfulness are too abstract for specific codification. Such traits manifest themselves in outcomes like developing trust with sales representatives and customers, helping employees and sales representatives make improved ethics decisions and the creation of the belief that top management not only stands behind the law, but is willing to go further than the law requires to promote ethical business practice. This may be captured in executives' perceptions that there is little difference in the "official" line and how things really work, although CEOs/Presidents/VPs felt more strongly about this than did other corporate officers. Interestingly, respondents also reported that ethical issues they hear about tend to be industry-wide rather than company based issues. It would seem that the DSA code would be invoked under such circumstances.

Implications

The results of this survey suggest a high degree of ethical consciousness among Direct Selling executives. This study also suggests that DSA executives are aware that ethical consciousness does not occur by happenstance. Chief executives and other corporate officers must promote ethics. Moreover, the promotion of the DSA code of ethics has been helpful in raising the ethical conscience of industry members according to Direct Selling officers.

Clearly, top managers in any sales organization must take the lead in promoting ethical consciousness. The actions of the CEO and other top managers send strong messages to all sales force members of the company concerning management's commitment to ethical behavior. When top management reprimands unethical behavior, the ethical problems perceived by marketing managers seem to be reduced (Chonko and Hunt 1985). This finding has been corroborated many times (e.g. Belizzi and Hite 1989; Vitell and Davis 1990a; Vitell and

Davis 1990b; Armstrong 1992 Belizzi 1995). More recently, McDonald (2000) has observed that commitment by senior management that ethics becomes a part of the strategic vision of a company is essential for the promotion of ethical behavior. In other words, the actions of top management are critical to the ethical tone in an organization.

Other corporate officers can serve as assistants in mobilizing the ethical consciousness of the firm. The results of the survey suggest that Direct Selling executives are more interested in doing things right than doing them expeditiously. Those with high ethical standards must oppose methods that might interfere with offering quality products or services or having a world-class sales force. In other words, these other corporate executives play a vital role in ethical consciousness when their instincts are brought to bear in decision-making. And, to the extent that these corporate executives are well respected, they bring an authority and a respect to the conversation that can serve as a symbol for high ethical consciousness for others in the sales organization. Thus, corporate executives can play a prominent role in supporting ethical standards of behavior.

In the ethics audit process, the views of managers at all levels are critical. In our current audit, we provide considerable evidence that top managers and other managers are in agreement on many ethics issues. However, we also provide evidence of diverging viewpoints, generally with top managers feeling more strongly positive about industry ethics than other managers. Such divergences lead to questions like, "Is top management optimally setting the ethical tone for the industry?" "Do other managers have insights not possessed by top managers?" "Do such divergences imply that other managers have questions about top management commitment?" Such questions may be evoked by the results of an ethics audit and should lead to further investigation concerning why such perceptual discrepancies exist.

It is critical that sales force managers have a means of voicing concerns about corporate conduct as specified by the FSGs. Such a mechanism must insure that no one suffers adverse consequences from reporting questionable practices. The existence of internal processes provides time for research into issues and the creation of remedies to prevent recurrence of questionable behaviors. Time is also afforded management to prepare a defense in the event that there were, indeed, no ethical violations.

Finally, the role of associations such as DSA can be influential in promoting ethics in the industry. Professional associations perform an educational role by disseminating knowledge and keeping members up-to-date on business developments. They also perform a social role, helping members maintain contacts with colleagues. And, as is the case with the DSA, they maintain professional standards through a variety of vehicles including membership qualifications, training, and implementation of a code of ethics.

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