



Determinants of Business Ethics on Multinational and Local Organizations

Ahmad Raza

Superior Colleges Lahore, Pakistan

Email: razawattu@gmail.com

Dr. Muhammad Ramzan (Corresponding Author)

Lahore University of Management Sciences (LUMS), Pakistan

Email: mramzaninfo@gmail.com

Abstract

Ethics are considered as a key integrating force in management. It is of paramount importance as companies move rapidly to decentralize their operations with the aim of achieving maximum profitability and flexibility. A strong corporate culture with high ethical standards is a prerequisite for ethical behavior of the employees and the company as a whole. The approach taken in the study was to compare the ethical behavior of multinational organizations with the local ones. Ethical behavior of the companies can be accessed through structured questionnaires. Sample size is (n=104) Therefore, correlation and multiple regression analysis has been used to determine the strength of the relationship. The results conclude that strong corporate culture with ethical code has the power to maintain high ethical standards, and it is the necessity for a business survival and success in the market place.

Keywords: Business ethics, corporate culture, employee performance

1. Introduction

Ethics has been considered a key integrating force in management of organizations. To be successful in meeting its objectives, with the aim of achieving maximum profitability and flexibility, it is necessary for a business to be responsive to both its economic and non-economic environment. Sustainable execution of societal and environmental conscientiousness in mechanized and emergent countries has been escalating their importance for legitimating for numerous years (Tuner, 1973). We are toward the inside the era of “Triple Bottom Line” where companies are being more and more requisite to accomplish a poise between profitable success, ecological responsibility, and social integrity. The hasty development of corporate social responsibility (CSR) schemes and accreditations programs has been indication as a novel age for business. The responsible company has turn out to be one that not merely engenders a profit but

also looks after and plunder the community it operates. A small number of companies have outlook corporate or brand status as insignificant. However, Still reputation management within numerous organizations leftovers a little by little concern, with no obvious ownership and responses swiftly paved jointly, always belated by remonstrations from the legal panels, as a reputation risk is concerning to bang the corporate illumination elsewhere (Hoelz, 2001).

Ethical consideration systematically remained the decision-makers of his or her basic goals, those of coworkers and crucially the company goals (Brown, 1990). A business cannot be successful lacking sticking to good ethics. Ethics can be well thought-out to be next of kin to a period in time also can be careful comparative to the role of a scrupulous entity, i-e Carry's responsibility. Worsening of ethics in business, for example, as Graft, corruption, cheating, favoritism, skimming money, etc. and Interpretation of ethics in corporate culture, Interpersonal relations are the strong corporate culture with high ethical standards is a prerequisite for ethical behavior of the employees and the company as a whole. Unless ethic is being implemented from the top, it would not reach to the bottom. The approach taken in the study was to compare the ethical behavior of multinational organizations with the local ones. Two companies in each category (Multinational & local) were chosen for the study, and all of these are very influential in their industries. However, the main reason for choosing each company was the presence of strong corporate culture. Obviously, an organization without any corporate culture will have extremely low chances of possessing ethical values and displaying ethical practices.

1.1 Objectives of the Study

Following objectives are hoped to be achieved through this research study:

- *To explore the difference between the major parts of corporate culture this is ethical behavior of local and multinational organizations.*
- *To find out causes of unethical behavior.*
- *To find the role and importance of ethics in an organization's corporate culture.*
- *To find the unethical practices especially the most occurring ones in the organization.*

The research conducted involved an extensive examination of the relevant literature. Primary data regarding different aspects of business ethics was collected through the detailed questionnaires. This approach provided insight into the presence of ethics in an organization, its effect on the performance of employees. Chi-square test was applied to find out the relationship between the corporate culture and business ethics. It was observed that the difference in the size and type of management is reflected in all aspects of business, including ethics. Today being ethical is not a choice for businesses; it is a necessity for survival and success in the market place.

2. Literature Review

According to Steiner & Steiner, (1997) "Ethics in business is the study of good and evil, right and wrong, just and unjust actions in business". Performing ethically or responsibly for all time and mainly way acting perceptively i.e carefully weighing up the reimbursement and impairment is that one's own action can bring. An institution's hardworking go beyond the level of insignificant ethics go in front to a higher general good, and that, in the final analysis, this again has positive effects for the institutions anxious (Paster, 1984). An indication on corporate ethics must always tolerate this in mind, and exactly because of it must always superior and excavate deeper than purely keep away from unintelligent behavior. Intelligent action is acting in ones progressive self-centeredness and thus well-suited with the egocentric propensity in our societies. To assume the unselfishness and a holistic world-view are major human distinctiveness would be impractical (Paster, 1984).

According to Shahzad, F & et. al (2012), culture of the organization is positively related to the performance of the employees, which is ultimately leads to the organizationally performance. Strong culture may cause to enhance and control the ethics of the employees. According to amorality theory “business should be amoral, i-e, conducted without reference to the full variety of society’s ethical thoughts (Steiner & Steiner, 1997). Ethical orientation is the theory of ethical harmony, in which means “business actions should be critic by the universal ethical standards of society, not by a special set of further lenient standards”. With inner stakeholders, there is onwards a facet of engagement to add; the construction of earlier arrangement between the organization’s vision and values, and those of its employees. This is not easy, but with a promise to pay attention and learn, it can have an extraordinary consequence on motivation, and employee satisfaction (Brown, 2002).

A lot of deem that a corruption cannot at the same time have elevated principles and high profits. Infect, there is a more and more frequent view that many firms are ethically reckless, pursuing their immorally at the cost of the situation and the protection and health of consumer (Tuner, 1973). The standard moves are based on the plan that manager desire to evaluate their future events, decisions or behaviors with convinced principles of ethics (Das, 1998). The golden rule simply argues that if one wants to be treated fairly, then he/she should treat fairly; if he wants to be told the truth, he should tell the truth; if he wants privacy protected, he should protect the privacy of others, the key is impartiality (Das, 1985).

Intuition is a kind of awareness that might be the sum of all the decision-maker is or has experienced. Managers are often driven to make quick decisions, and it is tempting to believe that they go on their gut feeling when time does not permit a more careful assessment based upon other principles or guidelines (George 1986). Strong corporate responsibility practices and suitable exposure permit businesses to defend their “license to maneuver”. To decrease the cost, risk, and liabilities of the association is to boost employee and customer devotion and protected customer encouragement for the business and to diminish the probability of costly and undesirable revelations (Brown, 2002).

Traditionally, business organizations were fashioned as economy's body planned to give goods and services to the community. To earn profit was the primary motive for the entrepreneur. The major function of the organization was to bring into being goods and services that consumers desired and to earn a reasonable profit in this process (Friedman, 1990). At several points, the idea of the profit motive got malformed into a belief of profit maximization, and this has been a permanent value ever since. All other business responsibilities are forecasted upon the economy's accountability of the firm, because without it, the others become mainly deliberation. Ethical responsibilities exemplify standards, norms, or expectations that imitate an anxiety for what consumers, employees, shareholders and the community look upon as fairs, now or keeping with the admiration or shelter of stakeholder's moral right. In one sense, altering ethics or values go before the institution of law for the reason that they become the motivating forces at the back of formation of laws or regulations (Carroll, 1994).

3. Methodology:

3.1 Theoretical Framework

Variables are selected on the basis of literature and developed the theoretical framework to understand the relationship among the variables.

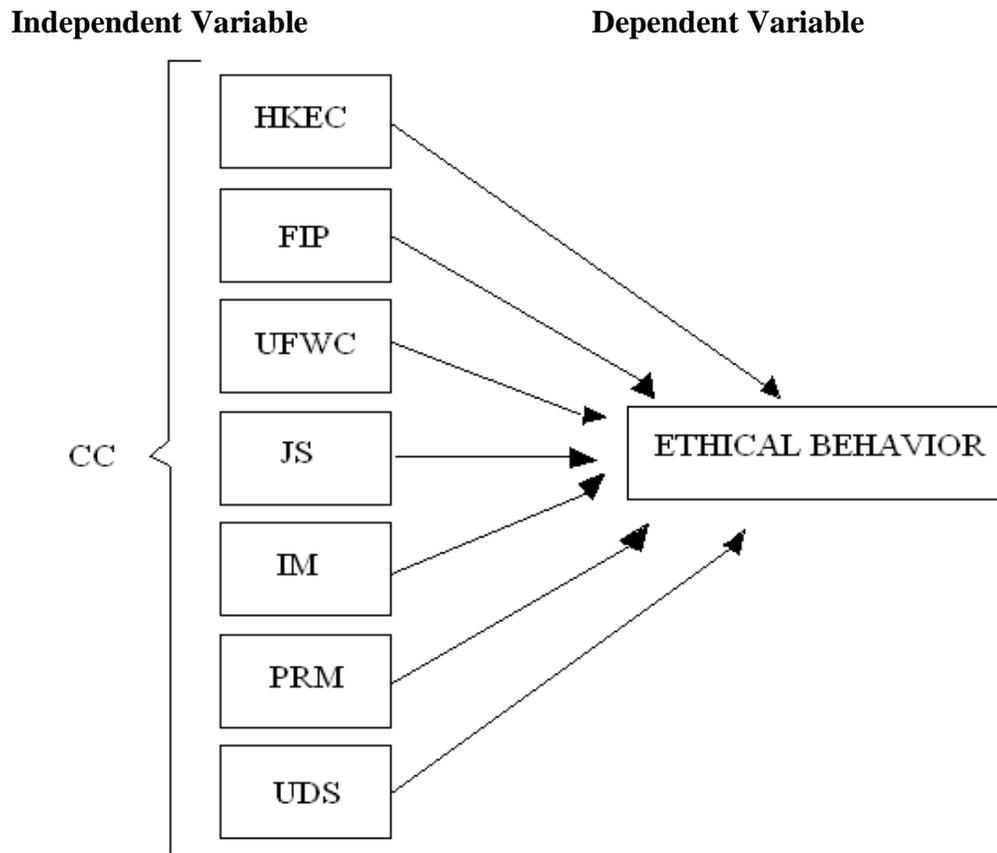


Fig.1

Corporate culture can be measured on the basis of following elements:

- Hiring key employees of competitors
- Misleading advertising and marketing practices
- Unfavorable working conditions
- Job security
- Inadequate motivation provided by the supervisors
- Poor relationship with senior management
- Undesirable future benefits

3.2 Hypotheses

Following hypotheses are developed in the context of Multinational and Local organizations.

- H_{0a}:** There is no significant relationship between ethics and hiring key employees of competitors.
- H_{1a}:** There is a significant relationship between ethics and hiring key employees of competitors
- H_{0b}:** There is no significant relationship between ethics and favoritism in promotion.
- H_{1b}:** There is a significant relationship between ethics and favoritism in promotion.
- H_{0c}:** There is no significant relationship between ethics and unfavorable working conditions.

- H_{1c}:** There is a significant relationship between ethics and unfavorable working conditions.
- H_{0d}:** There is no significant relationship between ethics and job security.
- H_{1d}:** There is a significant relationship between ethics and job security.
- H_{0e}:** There is no significant relationship between ethics and inadequate motivation.
- H_{1e}:** There is a significant relationship between ethics and inadequate motivation.
- H_{0f}:** There is no significant relationship between ethics and poor relationship with management.
- H_{1f}:** There is a significant relationship between ethics and poor relationship with management.
- H_{0g}:** There is no significant relationship between ethics and undesirable future benefits
- H_{1g}:** There is a significant relationship between ethics and undesirable future benefits.

3.3 Data Collection and Sampling

This is a survey based research. A five point likert scale questionnaire is used as research instrument for the study. The questionnaire was distributed among the employees of the multinationals and local companies working in Lahore. Selective sampling is used for data collection. 120 questionnaires were distributed among the top and middle management of the both companies. After scrutiny of responses 18 questionnaires were found incomplete and inappropriate. Therefore, 104 valid responses were used for data analysis.

3.4 Statistical Analysis Technique

The aim of the study is to find the influence of corporate culture on ethics of employees. For the purpose of testing hypothesis correlation and multiple linear regression model is applied Cronbach's alpha was applied to check out the overall reliability of the data. The value of the Cronbach's alpha show 0.879, which shows that data used in this study is highly consistent. SPSS version 17 was applied to find out the results.

4. Results and discussion:

4.1 Regression Analysis

The model summary shows the value of Adjusted R square is .717 that means independent variables (SP, JS, HKE, FPM, UWC, PRS, and INM) explain 71.7% variation in dependent variable which is EC

- HKE-----Hiring key Employees of Competitors
- FPM-----Favoritism in Promotion
- UWC-----Unfavorable working conditions
- JS-----Job security
- INM-----Inadequate motivation
- PRS-----Poor relationship with management
- SP-----Undesirable salary packages / future benefit

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858(a)	.736	.717	.26738

a Predictors: (Constant), SP, JS, HKE, FPM, UWC, PRS, INM

ANOVAs (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	19.137	7	2.734	38.240	.000(a)
	Residual	6.863	96	.071		
	Total	26.000	103			

a Predictors: (Constant), SP, JS, HKE, FPM, UWC, PRS, and INM

b Dependent Variable: EC

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.357	.094		14.432	.000
	HKE	-.164	.074	-.380	-2.220	.029
	FPM	-.172	.062	-.493	-2.783	.006
	UWC	.096	.078	.216	1.219	.226
	JS	-.270	.053	-.737	-5.120	.000
	INM	.054	.074	.160	.729	.468
	PRS	.011	.079	.029	.144	.886
	SP	.455	.060	1.135	7.557	.000

a Dependent Variable: EC

The above statistics shows the beta values for variables. The coefficient table shows there is significant negative relationship between dependent variable EC and independent variables (HKE, FPM, JS) and also having significant positive relationship with SP. It means SP significantly positively affecting EC. And HKE, FPM, JS are significantly negatively affecting EC. The results also show EC has positive relationship with UWC, INM, and PRS. So, accept your hypotheses which are significant.

4.2 Correlation Analysis

Correlation

		HKE	FPM	UWC	JS	INM	PRS	SP
HKE	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	104						
FPM	Pearson Correlation	.653(**)	1					
	Sig. (2-tailed)	.000						
	N	104	104					
UWC	Pearson Correlation	.900(**)	.729(**)	1				
	Sig. (2-tailed)	.000	.000					
	N	104	104	104				
JS	Pearson Correlation	.787(**)	.779(**)	.701(**)	1			
	Sig. (2-tailed)	.000	.000	.000				
	N	104	104	104	104			
INM	Pearson Correlation	.778(**)	.933(**)	.806(**)	.832(**)	1		
	Sig. (2-tailed)	.000	.000	.000	.000			
	N	104	104	104	104	104		
PRS	Pearson Correlation	.923(**)	.739(**)	.932(**)	.802(**)	.851(**)	1	
	Sig. (2-tailed)	.000	.000	.000	.000	.000		
	N	104	104	104	104	104	104	
SP	Pearson Correlation	.774(**)	.822(**)	.836(**)	.620(**)	.873(**)	.821(**)	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	
	N	104	104	104	104	104	104	104

** Correlation is significant at the 0.01 level (2-tailed).

The result shows that there is a positive significant correlation among the corporate culture variables. With increase in corporate culture values ethical behavior increases. It was discovered that the corporate culture and ethics have a very significant relationship. In fact, these two variables are very strongly correlated I-e if the corporate culture is strengthened; the concept of ethics will be more prevalent. Thus, the corporate culture should be shaped in a way that explicit ethical goals, arrangements, and strategies are visibly put onward to build a theoretical and operational structure for ethical decision making. Such actions will operate as a catalyst in raising the ethical standards of an organization.

It was found that there is no major difference between the ethical standards of the two groups of the organizations. These again effects on the changing trends in the perception of local businesses in regards, to ethics. It portrays that along with multinationals, local firms are also appreciating the concept of ethics and its significance. The potential relationship of ethical standards and performance of employees was also explored, and it was concluded that there is no relationship between these two variables. The productivity of employees is not at all affected by the current ethical standards of organization. Every employee seems to follow his or her own value system and refers to it while on the job. The formal ethical standards of the company cannot influence his or her morals or affect his or her performance. According to the statistical results, from ethical code is present in both categories of organizations, but is slightly stronger in the

multinationals. However, it seems that today local companies want to be in direct competition with multinationals in every aspect of their business.

In addition, the relationship of ethical code of ethical standards was proven to be true i.e stronger the ethical code, the higher the ethical standards of an organization. This is so because if the ethical rules and regulations are put in writing. Then certainly the management will take actions to ensure that they are being followed properly. Once this happens, it will result in overall high moral standards within the organization.

Favoritism in promotion is the most common unethical practice in both local and multinational organizations. However, it occurs more often in local (75%) than multinationals (25%) the results are surprising, as favoritism in promotion is a very common practice in Pakistan's weather in local or multinationals. It is fair to say that this practice is incorporated in corporate culture of Pakistani businesses. Hiring key employees of competitors is most commonly found in local organizations because the salary packages are very low employee quit to other organizations for gaining more benefits whereas in multinationals pay packages are complete than local ones. Unfavorable working conditions affect the performance of individual who obviously affect the pace of organization in achieving goals it prevails more in local organizations, do not implement the ethical standard with utmost effort.

In the study, unequal pay scale was rated as number one by the local respondents and fear of job security was rated the top-most reason for unethical behavior by multinational respondents. Unequal pay scale has always been a common problem in local organizations because of favoritism. However, job security is generally not a problem because multinational actually provide secure jobs. The second most frequent cause for occurrence of unethical behavior is an undesirable pay package in the local category. In multinationals the second most occurring cause is inadequate motivation by supervisors.

Poor relationship with colleagues is rated as the least important or least occurring cause of unethical in both local and multinational organizations. The cause of unethical practices correlates with each other even though all of these are not dependent variables most of the correlations are perfectly positive.

5. Conclusion

The main revelation of the study is that a strong corporate culture with high ethical standards is a prerequisite for proper ethical behavior of employees and the company as a whole. Unless ethic is being implemented from the top, it would not reach to the bottom. Today, more and more employees prefer to work for a company that has a good reputation and is highly ethical as the value of business ethics is increasing in society. The study revealed that there is a strong correlation between corporate culture and ethics or the ethical standards of an organization. The stronger the corporate culture, the higher the ethical standards of the company. Values are the preliminary point of the system. Companies have to establish with possess apparent values and purpose, and be mindful of the irregular fashion of the peripheral stakeholder's attitude. Merely if a company's values are understandable at the outset will be credibility tough, robust, and protected at the charge of implement social conscientiousness as a short-term measure. Ethic is learned more than it is taught. It is based on observations of the conduct of others, people we like and opposed to those we do not.

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