

Can Corporate Ethical Codes of Conduct Influence Behavior? An Exploratory Study of Financial Managers in a Developing Economy.

By

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**Presented at the
Academy of Business & Administrative Sciences (ABAS)**

**2003 XI International Conference
Brussels, Belgium
July 11-13, 2003**

ABSTRACT

In today's competitive business environment, a corporate code of ethics should serve as the foundation upon which employees make decisions based on honesty, integrity, confidence and trust. This study used a sample of 420 management accountants in Nigeria to examine the relationship between ethical codes of conduct and employee's behavior. Results indicate that the presence of corporate codes of ethics was associated with less wrongdoing in the organizations surveyed for this study, but not with an increased propensity to report unethical behavior. The presence of strong codes of ethics was also associated with organizational commitment. Implications for management practice and human resources development are discussed.

Introduction

In today's competitive business environment, a corporate code of ethics should serve as the foundation upon which employees make decisions based on honesty, integrity, confidence and trust. A written code of ethics provides employees with an understanding and knowledge of what their organizations expect from them in terms of responsibilities and behavior. A code of ethics reflects corporation standards and establishes realistic modes of behavior that applies to everyone in the company, from the board of directors to the newest employee. According to Solomon and Hanson (1985), a code of ethics is important because it provides visible guidelines, stability to an organization, and a point of focus for everyone in the organization. The reputation of an organization and its

actions reflect the ethical conduct that affects its potential for profit and growth. All levels of employees need to be aware of company policies regarding ethics in order to make the right decisions in difficult business situations, to know how and when to seek help when faced with ethical dilemmas, and to know where to report possible unethical conduct. In a poll conducted by the New York Times/CBS News in 1995, 55% of the American public believed that "the vast majority of corporate executives were dishonest," and 59% thought that "executive white-collar crime occurred on a regular basis" (Wulfson, 1998). A 1987 Wall Street Journal article also noted that one fourth of the 671 executives surveyed by a leading research firm believed that "ethics can impede a successful career, and that over one half of all the executives they knew bent the rules to get ahead". A 1990 national survey concluded that "the standards of ethical practices and moral leadership of business leaders merit at best a C grade; and 65% of those surveyed believed that the unethical behavior of executives is the primary cause of the decline in business standards, productivity and success" (Wulfson, 1998).

Ethical problems are not unique to the United States and Europe only. Top business and government officials in Japan were caught in a major influence peddling scheme. Similar charges have been brought against top officials in South Korea, the People's Republic of China, Brazil, Pakistan, and Zaire (Nikels, McHugh, and McHugh, 2002). Nigeria, Kenya, and Cameroon are listed as one of the worst corrupt countries in the world by Transparency International an anticorruption pressure group founded by a former World Bank official (Nikels, McHugh, and McHugh, 2002).

Several studies have been conducted on the issue of corporate ethics. However, these studies have been conducted primarily in the United States, Europe, and Asia. (Somers, 2001; Adams, J.S., and A Tashchian, 1995; Adams, Tashchian, and Stone, 2001; Wotruba, Chonko, and Loe, 2001, Clark and Leonard, 1998; Wulfson, 1998). Despite the importance of corporate ethics, one of the regions that have been neglected by researchers is the sub-Saharan African nation. Extensive reviews of the literature on this issue shows that very little research have been conducted in this region to examine this problem. Due to lack of empirical research on this topic, and to further enhance our understanding on

this topic. Therefore, the purpose of this study was to investigate the influence of corporate code of ethics on financial managers behavior in Nigeria.

This study is potentially useful for both scholars and practitioners alike. First, it is important to examine whether the constructs that apply in the United States and other advanced economies of the world also hold in developing countries of Africa. Second, as the economies of African nations are gradually developing, and as these nations are opening their borders to global trade and investment, it is imperative to understand the factors the influence Nigerian financial managers ethical decision- making. Third, from an academician perspective, this study is expected to enhance scholars' understanding of the influence of code of ethics in a non-western context, thus hopefully stimulating further research in this area. Fourth, it is expected that this study would be of some benefit for those who develop business curriculum and business professors who teach business ethics in Nigerian universities. Finally, from a practical standpoint, this study could provide practitioners, especially managers in multinational corporations considering doing business in Nigeria with valuable information for making better decisions in recruitment, selection, promotion, and training.

Conceptual Framework

This study is based on the earlier works of (Somers, 2001; Adams. Tashchian, and Stone, 2001; Wotruba, Chonko, and Loe, 2001, Clark and Leonard, 1998; Wulfson, 1998). These researchers have suggested that formal codes of ethics generally will inhibit unethical behavior of employees in organizations. From a conceptual perspective, corporate codes ethics are meant to highlight an organization's commitment to promoting ethical behavior thereby acting as a part of a socialization process designed to ensure highest standards of behavior (Somers, 2001). Results of a research conducted by Murphy et al., (1992) lends support to the proposition that there is a relationship between ethical codes of conduct and employee's behavior in that findings of this research indicate that employees that respondents in organizations with formal codes of ethics were more aware of wrongdoing than were respondents in organizations without formal codes of ethics. Thus, we propose that unethical behavior will be less prevalent in

organizations that have adopted corporate codes of ethics than organizations that have not formally adopted such codes. Researchers have also suggested that organizations that have adopted codes of ethics have helped to facilitate ethical decision-making for their workers thereby leading to positive work attitudes and possibly to higher levels of organizational commitment (Somers, 2001; Weeks and Nantel, 1992). We therefore, anticipate that employees will be more committed to organizations that have adopted codes of ethics.

Hypotheses Development and Research Framework

The research framework represented in Figure 1, suggests that the presence of a corporate code ethics shows the organization’s concern for ethics, and that code impacts ethical behavior of employees Trevino and Nelson (1995). Corporate codes of conduct also transmit ethical value to organizational members and will impact ethical behavior of employees. The research framework indicates that there is a linkage between organizational codes of ethics and employee behavior.

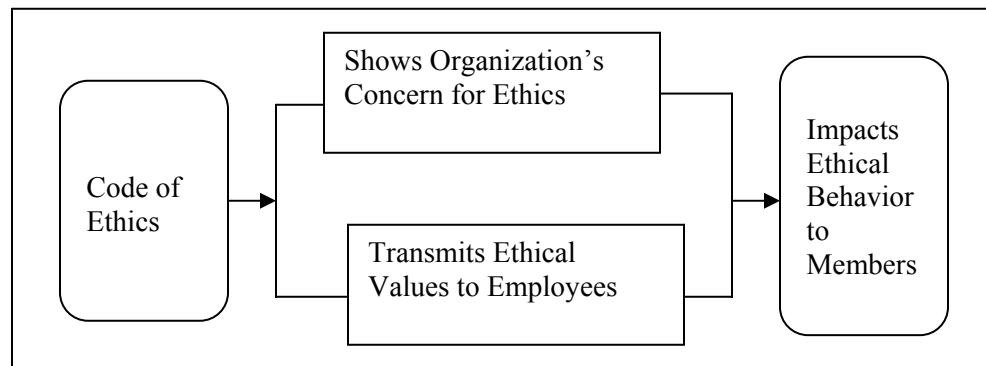


Figure 1 Research Framework

The following hypotheses were developed to test if there is a significant relationship between corporate codes of ethics and financial managers behavior in Nigeria.

H1: Unethical behavior will be less prevalent in organizations that have corporate codes of ethics than it is in those organizations that have not formally adopted codes of ethics.

H2: Employees will be more committed to organizations that have adopted codes of ethics than those that have not.

H3: There will be a significant positive relationship between corporate codes of ethics and employee behavior with respect to the reporting of ethical and unethical activities.

Research Method

Sample

The sample used for this study consisted of financial managers in selected business organizations in Nigeria. Using the A to Z business directory of companies in Nigeria a sample of 600 managers was drawn using a systematic random sampling technique. The instruments used to gather data were hand delivered to the managers identified for this study. Research assistants were responsible for hand delivering and collection of the instruments. The instruments were coded and were returned anonymously to a central place where they were collected by the research assistants and returned to the researcher. This procedure was not considered a problem or perceived to constitute a bias because the identities of respondents were protected. Of the 600 questionnaires distributed 420 usable questionnaires were returned or 70%.

Instruments

Codes of Ethics:

Employee perceptions were used to determine the presence or absence of a formal corporate code of ethics. This was accomplished with a single-item indicator which gave respondents one of three choices as to whether their organization had a "written code of ethics for its employees" which included: "yes", "no" and "don't know."

Awareness and reporting of organizational wrongdoing:

Awareness of wrongdoing was measured by asking respondents if they had "personally observed or obtained direct evidence" of financial fraud in their present organizations within the last five years. Financial fraud was chosen as an indicator of wrongdoing because of its centrality to accounting and finance, and it was operationalized with Bologna's (1984) typology, which includes ten forms of financial fraud (e.g., embezzlement of assets, understating expenses or liabilities). Respondents who observed at least one of the ten forms of financial fraud were classified as aware of wrongdoing (Somers, 2001).

Organizational commitment

Organizational commitment was measured using the Organizational Commitment Questionnaire (OCQ) developed by Mowday et al. (1979). The organizational commitment questionnaire consisted of 15 statements. Mowday et al. (1979) reported a median coefficient alpha of .90 with a range of .82 to .93 for 2563 employees in nine different public and private work organizations. The authors examined the construct validity through factor analyses. The analyses resulted in a single-factor solution and supported the conclusion that the items are measuring a single common underlying construct. Demographic characteristics items included in the scales are those pertaining to age, education, years of experience, and gender. Numerical scale was used to record personal characteristics responses.

Validation of the Research Instruments

The instruments used in this research were submitted to a panel of experts in Nigeria and the United States for validation. The panel was asked to review the content of the items in each of the instruments and determine if the items were within the linguistic capabilities and understanding by financial managers in Nigeria. The panel was also asked to eliminate items or questions they found to be irrelevant to the Nigerian work environment, and make suggestions on how to simplify the items that were not relevant. The experts independently and unanimously recommended the use of the instruments for this study. The panel also indicated that the instruments were good measures of the concepts identified for this study.

Pilot Test of the Instruments

To establish the highest degree of reliability, the jury-validated instruments were pre-tested on a small sample of (n = 40) of randomly selected MBA students. The correlation of random split-halves for internal consistency for the instruments ranges from 0.70 to 0.90. Also the step-up formula ranged from 0.85 to 0.98. Thus, these results suggest that the instruments were reliable measures to be used in Nigeria for this study.

Statistical analyses

To test each of the hypothesis developed for this study, required comparisons between observed frequencies or means across groups. Comparisons between observed frequencies were evaluated with chi square analysis with results reported as percentages rather than as raw frequencies. Comparisons between means were analyzed with one-way analysis of variance (ANOVA).

Results

Respondents were mainly male (75%) with a mean age of approximately 45 years. Over half of the sample (52%) had 5 or more years experience in their present jobs, (40%) had a job tenure of 1 to 5 years, only 8 percent held their present jobs for less than one year. The majority of the respondents (75%) were at middle or senior management levels in their organizations and 25% were first line supervisors.

Research hypothesis one stated that unethical behavior would be less prevalent in organizations that have corporate codes of ethics than it is in those organizations that have not formally adopted codes of ethics. Findings in Table 1 supported this hypothesis in that respondents in organizations with formal codes of ethics were more aware of wrongdoing than were respondents in organizations without formal codes of ethics. Specifically, a significantly smaller percentage of respondents (39.5 percent) in organizations that had corporate codes of ethics were aware of unethical activities in their organizations when compared to the percentage of respondents in organizations without a code of ethics who were aware of wrongdoing (60.5%, $X^2 = 14.65$ $p < 0.05$).

Table 1
Awareness of Wrongdoing in the Organization and
the presence of Corporate Codes of Ethics

Corporate codes of ethics	Yes	No	Don't Know
Percent unaware of wrongdoing	60.5	29.9	48.3
Percent aware of wrongdoing	39.5	70.6	51.7
Total	100	100	100

Chi Square = 14.65; $p < 0.05$; N = 420

Research hypothesis two stated that employees would be more committed to organizations that have adopted codes of ethics than those who have not adopted codes of ethics. As there is only one dependent variable in this case, a one-way ANOVA was used to analyze data. Results indicated that there were significant differences between groups ($F = 9.30$ $p < 0.05$) with organizations that have adopted formal codes of ethics demonstrating the highest level of employee commitment. Specifically, the mean level of commitment was 4.55 for these organizations, 4.35 in organizations without formal codes of ethics and 4.52 in organizations where respondents were not sure if a code was adopted.

Table 2
One-Way Analysis of Variance of Managers Levels of Commitment by Organizations With or Without Codes of Ethics

(N = 420)

Source	df	SS	MS	F	F-prob.
Commitment					
Between Groups	2	241.13	23.81	9.30	0.00**
Within Groups	418	5412.56	6.25		
Total	420	5653.69			

($F = 9.30$ $p < 0.05$)

Finally, hypothesis three was concerned with the relationship between the reporting of observed wrongdoing and codes of ethics. Results indicated that the presence of corporate codes of ethics had no influence on employee willingness to report observed wrongdoing. An overwhelming majority of the respondents stated that they did not report wrongdoings when they observe it. These findings are summarized in Table 3.

Table 3
Reporting of observed wrongdoing and the presence of ethical codes of conduct

Corporate Code of Ethics	Yes	No	Don't Know
Percent who reported wrongdoing	25	31	30
Percent who did not report wrongdoing	75	69	70
Total	100	100	100

Discussion

The purpose of this exploratory study was to investigate the impact of written codes of ethics on employees' behavior in a non-western context. Prior findings from studies conducted in the United States and other advanced industrialized countries clearly indicated that awareness of unethical activity is less prevalent in organizations that have adopted codes of ethics (Murphy et al., 1992, Somers, 2001). This study provided additional support for this proposition in that employees in organizations in a non-western environment that had adopted corporate codes of ethics were significantly more aware of wrongdoing than were employee in organizations without codes of ethical conduct. An ancillary finding associated with the results raise some cause for concern, specifically, only 3 percent of the respondents reported that their organizations had formal codes of ethics. This finding stands in sharp contrast to previous research findings in the west particularly in the United States where nearly 75 percent of organizations were reported to have adopted corporate codes of ethics (White and Montgomery, 1980; Somers, 2001). Findings also indicated that 56 percent of study participants reported that they were "not sure" if their organizations had a code of ethics.

Thus, this current research is in line with previous studies conducted in the west (Somers, 2001; Adams, Tashchian, and Stone, 2001; Wotruba, Chonko, and Loe, 2001, Clark and Leonard, 1998; Wulfson, 1998). The findings support the contention that unethical behavior will be less prevalent in organization that have corporate codes of ethics than it is in those organizations that have not formally adopted codes of ethics. The data in Table I suggest that unethical behavior was less rampant in organizations that had a written codes of ethics. A significantly smaller percentage of respondents (39.5 percent) in organizations that had written codes of ethics were aware of wrongdoings in their organizations when compared to the percentage of respondents in organizations without a code of ethics who were unaware of wrongdoings. Based in this result, it can be concluded that the presence of corporate ethical codes of conduct is an important tool that could guide managers in making better ethical decisions.

The findings reported in Table 2 indicate that significant differences were found between levels of commitment with the organizations that adopted ethical codes of conduct and those who did not. The present study also provides some support for this proposition in that the highest levels of commitment were observed in those organizations with codes of ethics, this finding, suggests that organizations concerned with ethical conduct build a supportive climate that includes values that emphasize integrity and ethical conduct and that encourages commitment to the organizational values. This finding is consistent with the previous findings in the west (Somers, 2001). Therefore, in the Nigerian context, as in the western world, ethical codes of conduct appears to be one of the fundamental factors than can encourage managerial commitment.

Results also indicated that the presence of corporate codes of ethics had no influence on employee willingness to report observed wrongdoing.. The general attitude of most managers as indicated by one respondent is that “ I’m here to do my job, and to mind my business”. Yet, another respondent stated that “things happen to those who tell in my company and no one is here want to face the consequences of telling management about fraud and unethical practices that go on daily in this company”. This means that many members of an organization might be ethical and are following the stated code of ethics, but do not want to report those who violate ethical codes because of the consequences.

Conclusions and Implications

Respondents in the organizations surveyed in this study who had formal codes of ethics were more aware of wrongdoing than were respondents in organizations without formal codes of ethics. The implication of this is that top management should recognize the influence of written codes of ethics on employees’ behavior and develop strategies to promote ethical behavior by creating training programs on ethical decision-making, and by developing guidelines on how to enforce ethical codes when violated. These programs should provide employees with the tools they need to identify ethical issues at work and strategies to resolve them. Results show that there were significant differences between managers in organizations that have adopted formal codes of ethics and those who have not. Since codes of ethics influences employee’s level of commitment, an important

implication of this finding is for management to encourage and support the development of written codes of ethics. This might ensure an increase in employee's commitment and may discourage unethical behavior on the part of the employees. The presence of corporate codes of ethics had no influence on employee willingness to report observed wrongdoing. The implication of this finding is that management should provide ethics training for employees. Some of the topics presented during the training sessions should include an awareness of ethical issues, discussions of the company's codes of ethics and procedures for reporting unethical behavior.

Recommendations

The findings of this study revealed that corporate code of ethics influences employees' behavior. It is therefore, recommended that top management should ensure that their organizations have a written code of ethics and company policies that describe the general value system, principles, and specific rules that employees should follow in doing their jobs. We also recommend that management should provide ethics training for employees, and that some of the training topics should include awareness of ethics and ethical issues, discussions of the company's codes of ethics and procedures for reporting unethical behavior.

It is recommended that management employ a full time ethics officer who will give advice on ethical issues to top management, disseminated a code of conduct, investigated alleged ethics violations, advised the board of directors on ethics issues and oversee ethics training programs. An integration of ethical decision- making into the performance appraisal process, promotion, salary increases, and other company incentive programs is strongly recommended, this procedure may promote high ethical standards among the employees who may want to take the advantage of these benefits. The expectations of top management and efforts related to ethical issues should be publicized in the company handbook, newspapers, television and radio commercials.

Attempts on the part of top management to create an ethical atmosphere will have little effect on the ethical attitude and behavior of employees if management does not practice what it preaches. Therefore, top management must fully support ethics programs. In concluding this research, it is recommended that more research be conducted on this issue in developing countries as the reputation of organizations in these countries and its actions reflect the ethical conduct that affects its potential for profit and sustainable growth.

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