

The Influence of Personal and Organizational Factors on Ethical Decision Making Intentions among Managers

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Abstract

Ethics is attracting increasing attention in management circles of both the public and private sector organizations. This paper carries out an empirical study on how personal factors such as job satisfaction and organizational commitment and organizational factors such as code of ethics and rewards will shape managers behavior and subsequently influence their intentions pertaining to the making of ethical decisions. The primary data was gathered from 42 private oil and gas companies in Terengganu by using questionnaires. This exploratory study found that job satisfaction, organizational commitment, codes of ethics and rewards significantly influenced ethical decision making of managers in oil and gas based companies. The findings support previous studies

which reported that there is a positive link between ethical values and personal and organizational factors. Future research should also take into account personal factors such as security of tenure when carrying out a similar research.

Keywords: Job satisfaction, Organizational commitment, Codes of ethics, Reward, Ethical decision making

1. Introduction

In this era of global marketing, the more global the company is, the higher is the likelihood of ethical problems occurring. While many studies have examined the relationship between personal and organizational factors with ethical decision-making intentions, Sims (1999) on the other hand indicated that previous studies merely concentrated on actual differences in ethical decision-making but did not note differences in personal and organizational factors which contributed towards such differences in ethical decision making.

One of the peculiarities of excellent corporate performance in the new millennium is that it somehow depends on business and personal ethics. This is true due to the positive correlation between business ethics and corporate performance (Sullivan, 1990). She adds that the 1990's avalanche of corporate collapse could be all attributed directly or indirectly to the decline in the business ethics. Thus, companies' social performances have become a crucial factor as investors' interest toward a company's ethical behavior and social contribution has significantly grown.

Previously, any of the existing models of business research could have been used as the basis for empirical studies to investigate ethical decision-making in the business fraternity. However more research should be conducted on ethical decision-making intentions and moral intensity in light of recent developments in the study of empirical literatures regarding ethical decision-making. Mindful of current trends in business research, these researchers had decided to begin this research by accepting the definition of an ethical decision as a decision that is both legally and morally acceptable to the larger community.

Business ethics is the application of general ethical ideas to business behavior. The area of business ethics has received considerable attention from the corporate, academic and public sectors over the past decades. Besides, more and more businesses are now realizing that unethical behavior is costly to the firms, their employees, their investors and the society. In light of these considerations, it is proposed to ascertain the influence of not only job satisfaction and organizational commitment on ethical decision making but also other relevant variables for the purpose of expanding the empirical database and increasing the understanding of ethical or unethical decision-making.

Ethic is a tool that should guide the judgment in particular and general circumstances, either implicitly or explicitly. It is contingent with the personal and organizational factors. In today's competitive business environment, some companies try to get by with unethical business practices in order to be sustainable. Unconsciously, unethical business practices pose a hidden cost of doing business. For example, a businessman who offers a bribe to obtain a license would ultimately pass this extra cost to the final consumers in the form of increased prices. With the increased reported cases of fraud, mismanagement, and corruption in public and private sectors, it is realized that the unethical behavior is costly not only to the consumers but also to the firms, employees, investors, and the whole society.

Sullivan (1990) emphasizes that corrupt business practice is a dangerous disease especially when those who indulge in it receive accolades, status and recognition. He adds that an unethical businessman who is interested in pursuing short-term goals would have his deeds backfire on him later. According to Datuk Seri Abdullah Ahmad Badawi, the former Prime Minister of Malaysia, he has introduced the National Integrity Plan (PIN) recently. One of its agenda is to fight social diseases such as bribery and corruption in both public and private sectors.

According to Sullivan (1990), a notable issue was the positive correlation between business ethics and corporate performance. She suggested that recent corporate failures resulted from a singularly motivated strategy of making profits. Companies nowadays have to admit the fact that any unethical behavior or conduct is detrimental to their reputation. SHELL for instance, was forced to rewrite its business principles and had created an elaborate mechanism to implement them after they had suffered a couple of blows to their reputation in 1995. Chan (1999) adds that *lack of professional management and business ethics* is one of the contributing factors to the Asian crisis.

One article in the Malaysian Business shares the same view. It stated clearly that if bribery, corrupt practices, favoritism and any other unethical behaviors in business dealings become the norm rather than the exception in the society, then it leads to a decline in the economy as well as social values. Empirical evidence on this issue however is not yet available in Terengganu until this moment. Therefore, the study intends to examine the obvious personal and organizational factors that influence the decision-making intentions among managers working in oil and gas companies in Terengganu, and therefore the managers in that field were chosen to become the representative sample of the private sector as a whole.

Organizations must have committed members if they are to prosper or even survive (Savery and Syme, 1996).

Therefore, commitment along with job satisfaction are probably among the most investigated variables in personnel research. Darwish (2002) concludes that most of the research on the relationship between organizational commitment and job satisfaction showed positive correlation between them. Research in the “ethics” area argues that organizational ethics also affect organizational commitment. Consistently, Trevino *et al.* (1998) says that ethical culture and ethical climate do influence organizational commitment. In addition, it has been reported that employees with high ethical standards have lower commitment to “less ethical companies” than employees with lower ethical standards (Roozen *et al.*, 2001). On the other hand, the effect of rewarding ethical behavior and punishing unethical behavior of peers has improved levels of ethical expectancies and ethical decisions (Kurland, 1995). Rewards can either be moral or material in nature. Adherence to moral rules enables employers to gauge and motivate employees.

Job satisfaction implies a positive evaluation of work and a positive effect deriving from it, that is, a positive emotional state resulting from the appraisal of one’s job or job experience (Locke, 1976). Various antecedents to job satisfaction have been investigated over the years, including several demographic characteristics i.e. age, experience, education and job tenure (Lok and Crawford, 2001); wages (Groot and Brink, 1999) and organizational climate (Posner and Schmidt, 1984).

It is known that pay satisfaction has a significant effect on increasing job satisfaction at all levels, but pay is less important in determining job satisfaction as the employees move up the levels. Likewise, Linz (2003) notes that job satisfaction tends to correlate positively with labor productivity and negatively with labor turnover, both of which influence firm performance. Analysts typically argue that job satisfaction is multi-dimensional. The job setting is viewed as being composed of different constituents with which an individual may either be satisfied or dissatisfied. Hagedoorn *et al.* (1999) also speculated that organizational justice (which is expected to affect job satisfaction as per this study, via organizational ethics) may also be a motivator of constructive behaviors and suppressor of destructive behaviors. Any discrepancy between employees’ internal standards of ethics and their perceptions of top managements’ ethics will result in a moral conflict and cognitive dissonance (Dozier and Miceli, 1985) and this again reduces job satisfaction. Organizational commitment is defined by Mowday *et al.* (1982) as a multidimensional construct, which is the relative strength of an individual’s identification with and involvement in a particular organization. While Andrew (1989) defined it as the degree to which an employee feels loyal to a particular organization.

Past research has shown that job satisfaction is a determinant of organizational commitment (Barling *et al.*, 1990). According to Joseph and Deshpande (1996), greater job satisfaction is expected to lead to stronger organizational commitment. Investigating organizational commitment is important and useful to organization leaders, as it has been found to affect other organizational outcomes including turnover intentions (Lum *et al.*, 1998; Sims and Kroeck, 1994) and company sales and profitability (Benkhoff, 1997). Organizational commitment was found to be influenced by “job characteristics” that included opportunities for social interactions, job feedback, and the degree to which the job is challenging. “Work experiences” that influence organizational commitment include the work group’s attitude toward the organization, organizational dependability, and employees’ perception of personal investment in an organization.

There is also evidence that employees’ personal belief in work ethics has a direct effect on organizational commitment (Saks *et al.*, 1996). Likewise, Peterson (2003) notes that employees who believe ethics are relative are apparently able to cope more effectively with pressure to engage in unethical work behavior. Therefore, the employees exhibiting lower ethical standards and higher commitment may be more likely to view ethics in a relative manner.

Honderich (1995) defines ethics as the science of using moral criteria to guide human conduct. Moral criteria has been accepted as values and standards of human behavior. Therefore, code of ethics can be defined as the standard of moral conduct that is specified by a particular organization. Frooman (1994) argues that being unethical is not good business sense. He also reveals that unethical behaviour might lead to decreases in stock prices. In addition to that, Key and Popkin (1998) argued that ethical criteria must be included as part of the strategic process before-profit decision rather than after-profit decision in order to maximize corporate profits and improve strategy development and implementation.

Integrating ethics into the strategic management process is not only the right thing but also the profitable thing to do (Key and Popkin, 1998). Being ethical and using a sound code of ethics are paramount to management planning because those exercises require effective and efficient use of corporate resources in both the long and short-term planning. Ethics help in sound management planning since ethics and ethical codes of conducts are the shelter where moral, social and legal issues are placed. Therefore, using components of ethical analysis as the basis for decision making may result in the best use of resources in an organization (Key and Popkin, 1998).

According to Dillard and Yuthas (2002), legitimating structures are norms and values that lead to the formulation of a particular set of rights and obligations that take the form of rewards associated with and assigned as the result of particular actions. Previously, Osler (2000) suggests that strategies for building up good behavior include successful classroom management, societal politics, educational policies, teacher’s skill, education and

training, and code of conduct which applies rewards and sanctions.

Ann (1998) states that there are essentially two ways of stripping an ethic of its relevance; to establish new principles or to alter the system of rewards supporting existing principles. Ann (1998) adds that strong rewards, both internal and external to the practice of chronic pain management, reinforce the principle contained in the ethic. Empirically, one previous study by Tenbrunsel and Messick (1999) demonstrates that the presence of a sanctioning system will lead to judgments that the decision is more business in nature, whereas the absence of such a system will lead to the perception that the decision is relatively more ethical.

Paternoster and Simpsons (1996) note that when morality weakens, compliance must be secured by legal threats. The threat of legal sanctions is probably necessary to maintain the legitimacy of an extensive network of informal and normative controls. Additionally, Tenbrunsel and Messick (1999) view that the type of sanction that is used may also influence perceptions of the decision that is to be made. The factors that determine sanction strength are size of the sanction versus the probability of getting caught.

Many researchers have proposed a variety of theoretical models in an effort to explain and predict ethical decision-making intentions. Those models include the general theory of ethics of Hunt-Vitell (1986), which includes personal, organizational, industry and cultural factors; the behavioral model of Brommer *et al.* (1987), which includes work, personal, professional, governmental, legal and social factors; the situational-individual model of Trevino (1986), which includes individual, job and organization factors; and finally the contingency framework of Ferrel and Gresham (1985) that includes social, cultural, individual and opportunity factors.

A study done by Barnett and Valentine (2004) suggest that issue contingencies associated with either the perceived magnitude of consequences or social pressure are more important issue-related matters which bear an influence on ethical decision-making. However, it is argued that our social work code of ethics is necessary but insufficient tool for ethical decision making. Beu *et al.* (2003) view the counselor as the focus of ethical decision-making. From this perspective, ethics is no longer about determining "right answers", but whether and how the counselor decides what action to take: Ultimately ethical practice is moderated through and driven by the self as opposed to being driven by external variables. Likewise, Ferrell and Fraederich (1992) note that business ethics comprise moral principles and standards that guide behavior in the world of business.

Perceived unethical practices can be defined as a degree to which a respondent agrees that a situation has problematic ethical context (Hunt and Vitell, 1986). It is an important construct in the ethical decision-making process. The rationale behind this is that an individual should be able to perceive that an ethical dilemma exists before he or she will engage in the process of ethical decision-making. The perception of an ethical problem triggers the ethical decision-making process. Although the direction of the relationship was not specified in the Hunt-Vitell (1986) model, one would expect that an individual who perceives an ethical problem to be more severe would tend to behave more ethically than an individual who does not.

According to the Webster's New World Dictionary (1978) states that ethics is the study of standards of conduct and moral judgment. It is a concept of right and wrong behavior that defines whether our actions are moral or immoral. It particularly deals with fundamental human relationships on how we think and behave towards others and how we want them to think and act towards us. These principles are guides to moral behavior. Therefore, the researcher tends to examine the influences of personal and organizational factors on ethical decision making. This study used a path-analytic approach to examine job satisfaction, organizational commitment, codes of ethics and rewards pertaining to decision making of managers from private companies working in oil and gas industries in Terengganu.

2. Methodology

The sample group for this study is managers from oil and gas companies located in Kerteh, in the state of Terengganu, East Malaysia. The questionnaires were hand-delivered to the respondents, sent through an electronic mail and also by post. The collection of data was based on non-probability sampling and it was gathered based on a convenience basis. Out of the 42 oil and gas companies in Kerteh comprising 279 managers, there were 210 respondents and they represent the sample of this study. The statistics of the selected respondents is as depicted in Table 1.

The questionnaire designed attempted to measure the influences of job satisfaction, organizational commitment, codes of ethics and rewards on ethical decision-making. Section A contained respondent's socio-demographic characteristics, Section B was to measure the personal factors namely, job satisfaction and organizational commitment while Section C was for organizational factors such as codes of ethics and rewards. The last section consisted of business scenarios approach. Some researchers have argued that responses to approaches were more valid than responses to simple questions (Fritzsche, 1995). The scales employed in the questionnaire measured from a range representing strongly agree (1) to strongly disagree (7). Thus (4) on the scale indicated indifference (i.e. neither satisfied nor dissatisfied). The seven-point Likert scale's usefulness lies in its ability to capture and report a psychographic data.

According to the American Heritage Dictionary of English Language (1992), psychographics is the use of demography to study and measure attitudes, values, lifestyles and opinions. Hence, it is an appropriate tool for

this study. The data collected was analyzed using the Statistical Package for Social Sciences (SPSS) version 12. The coefficient of correlation was used to analyze the data.

Two ethical decision making scenarios were utilized for measuring ethical decision making intentions. Scenarios have been commonly used as part of data gathering instruments in numerous business ethic studies (Singhapakdi 1999; Singhapakdi *et al.*, 1996). The utilization of scenarios “*helps to standardize the social stimulus across respondents and at the same time make the decision making situation more real*”. Scenario 1 employed in the present study has been utilized in previous data gathering studies (Singhapakdi *et al.*, 1996). Scenario 2 was developed by Paolillo and Vitell (2002) and was pre-tested for face validity.

An ethical intention (the dependent variable) was measured by asking the respondents to indicate whether they would act in the same manner as the individual depicted in the scenario. Specifically, the statement used in this study was, “*I would act in the same manner as did the individual in the above scenario*”. A seven-point strongly agree/disagree scale measured this ethical intention construct. Since the action depicted in Scenario 1 was ethically questionable, agreement with the action in the first scenario indicated less ethical decision making intentions than did disagreement.

3. Results and Discussions

The analysis was related to the hypotheses in examining the impact of personal and organizational factors on ethical behavior. To test the hypotheses, the correlation analysis for the dependant variable (ethical decision making) with each of the independent variables namely job satisfaction, organizational commitment, codes of ethics and rewards is performed.

Correlation Analysis (Scenario 1): Table 2 clearly illustrates that all variables were significantly related to the ethical/unethical decision making in Scenario 1. The correlation coefficient revealed in Table 2 indicates that the managers’ perception on the ethical decision making was very much influenced by their perception on their job satisfaction level, organizational commitment, codes of ethics, and the rewards they received. These are shown by the significant values (2-tailed) of more than 0.05. However, the Pearson Correlation values of 0.274, 0.239, 0.363 and -0.174 indicate that the relationship between the managers’ perceptions on the ethical decision making intentions was weak. Furthermore, only rewards have a negative relationship with the dependent variable. This means that the lower rewards led to a higher intention in making ethical decision. On the other hand, higher level of job satisfaction, organizational commitment and codes of ethics seem to contribute to a higher intention in making excellent ethical decisions.

Correlation Analysis (Scenario 2): Table 3 clearly illustrates that all independent variables were significantly related to ethical/unethical decision making in Scenario 2. Table 3 indicates that the managers’ perception on the ethical decision making was very much influenced by their perception on their job satisfaction level, organisational commitment, codes of ethics, and rewards they received. These are shown by the significant values (2tailed) of more than 0.05. However, the Pearson Correlation values of -0.217, -0.171, -0.216 and 0.252 indicated that the relationship between the managers’ perceptions on the ethical decision making intentions and their job satisfaction, organizational commitment and codes of ethics was weak. Furthermore, job satisfaction, organizational commitment and codes of ethics have a negative relationship with the manager’s ethical decision-making. This means that low level of job satisfaction, organizational commitment and codes of ethics lead to a higher intention in making ethical decision. On the other hand, higher levels of rewards received seem to contribute to a higher intention in making ethical decisions.

Correlation Analysis (Combined Scenario 1 and 2): Table 4 illustrates that none of the variables was significantly related to ethical/unethical decision making in the combined scenarios. However, job satisfaction, organizational commitment, codes of ethics and rewards were found to be significantly related to ethical/unethical decision making in Scenario 1 (Table 2) and Scenario 2 (Table 3) at the 0.01 and 0.05 level respectively. Therefore, it is very evident that all the selected variables are associated with the ethical/unethical decision making intentions and moderately influence ethical decision making intentions among managers working in oil and gas based industries.

The above findings support the previous study by Hunt *et al.*, (1986) which reported that there is a positive link between ethical values and organizational commitment. However, the findings were in contrast to the study done by Paolillo and Vitell (2002) who discovered that none of the personal factors selected, job satisfaction or organizational commitment were found to influence ethical/unethical decision making intentions and this was supported by Ford and Richardson (1994). They noted that they could not find any studies that investigated the relationship between what they called “the obvious factors of job satisfaction and organizational commitment with ethical decision-making behavior”. Similarly, Loe *et al.* (2000) did not report on any studies that examined the relationship between job satisfaction or organizational commitment and ethical decision-making. However, Koonmee *et al.* (2010) indicated that the implicit form of ethics institutionalization and the their implementation have positive impact on the three employee job-related outcomes: job satisfaction, organizational commitment, and team spirit. DeConinck (2010) added that facets of job satisfaction and organizational commitment mediated the relationship between ethical work climate and turnover intentions and turnover. Therefore, Marta *et al.* (2008)

suggests that professions should develop ethical standards to encourage social responsibility, since these actions are associated with enhanced employee ethical attitudes.

4. Conclusion

Based on this study, job satisfaction and codes of ethics were found to significantly influence ethical/unethical decision making intentions at 99% confidence level for both scenarios (Scenario 1 and 2) while organizational commitment and rewards were found to significantly influence ethical/unethical decision making intentions at 99% confidence level in only one of the scenarios. For further research, it is recommended that other researchers can focus on other factors such as opportunity for advancement, leadership style and personal attributes that could be some of the variables that can contribute to unethical/ethical decision making intentions among employees.

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Table 1. Statistic of Oil and Gas Companies

No.	Companies Name	No. of Managers	Respondents
1	A.D. Metal Trading & Transport S.B.	2	2
2	Al-Wahid Supplies Sdn. Bhd.	1	1
3	Belimo Sdn. Bhd.	2	2
4	Carimin Sdn. Bhd.	5	3
5	Cito Petroleum Sdn. Bhd.	2	2
6	Ehsan Insulation Services Sdn. Bhd	2	2
7	Enersave Air Sdn. Bhd.	3	3
8	Ethylene Malaysia Sdn. Bhd.	30	30
9	Hablem Oil & Gas (M) Sdn. Bhd.	1	1
10	JCE Supply Services Sdn. Bhd.	2	2
11	Hassan Abdullah Sdn. Bhd. (HASB)	1	1
12	Kertih Terminal 1	33	23
13	LIMA Consulting Engineers Sdn. Bhd.	4	3
14	Local Engineering (M) Sdn. Bhd.	7	5
15	M.A.E. Construction Sdn. Bhd.	2	2
16	Mazlan Engineering Services Sdn. Bhd.	2	2
17	MMC Oil & Gas Engineering Sdn. Bhd.	4	3
18	Mushtari Maintenance Services S.B.	5	2
19	MYM Supply & Services Sdn. Bhd.	3	1
20	Newwin Engineering (M) Sdn. Bhd.	7	7
21	Nikmat Ria (M) Sdn. Bhd.	4	2
22	Optimal (M) Sdn. Bhd.	15	5
23	Petlin (M) Sdn. Bhd.	10	9
24	Petronas Ammonia Sdn. Bhd.	30	30
25	Petronas Gas Berhad	30	23
26	Petronas Gas Sdn. Bhd.	7	7
27	Petronnic Sdn. Bhd.	2	2
28	Petroserve (M) Sdn. Bhd.	2	1
29	Pioneer Engineering Sdn. Bhd.	2	1
30	Profound Oilfield Services	2	2
31	Protek Engineers Sdn. Bhd.	5	3
32	R.H. Oilfield (M) Sdn. Bhd.	2	1
33	S.P.C. Sanda Sdn. Bhd.	3	3
34	Shah Electric & Instrument Sdn. Bhd.	2	1
35	Sime Darby Offshore	1	1
36	Sultan Ismail Power Station TNB	10	6
37	Technotest Engineering Sdn. Bhd.	5	3
38	Toyo Engineering & Chemical Malaysia	1	1
39	Transwater Api Sdn. Bhd.	5	5
40	Trisystems Engineering Sdn. Bhd.	1	1
41	Vinyl Chloride Malaysia (VCM) S.B.	20	5
42	Yokogawa Kontrol (M) Sdn. Bhd.	2	1
	TOTAL	Population = 279	Respondent = 210

Table 2. Mean, standard deviations and correlation matrix for the 1st scenario

Variables	Mean	Std. Dev.	EDM1	Avg. JS	Avg. OC	Avg. COE	Avg. RWD
EDM1	3.7476	1.81121	-	-	-	-	-
Avg. JS	2.7012	0.94859	.274(**)	-	-	-	-
Avg. OC	4.4619	1.50191	.239(**)	.476(**)	-	-	-
Avg. COE	3.2131	0.93931	.363(**)	.206(**)	.272(**)	-	-
Avg. RWD	3.2440	0.85890	-.174(*)	-.153(*)	-.149(*)	-.262(**)	-

* Correlation is significant at the 0.05 level (2-tailed).

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

Table 3. Mean, standard deviations and correlation matrix for the 2nd scenario

Variables	Mean	Std. Dev.	EDM2	Avg. JS	Avg. OC	Avg. COE	Avg. RWD
EDM2	4.2143	1.87320	-	-	-	-	-
Avg. JS	2.7012	0.94859	-.217(**)	-	-	-	-
Avg. OC	4.4619	1.50191	-.171(*)	.476(**)	-	-	-
Avg. COE	3.2131	0.93931	-.216(**)	.206(**)	.272(**)	-	-
Avg. RWD	3.2440	0.85890	.252(**)	-.153(*)	-.149(*)	-.262(**)	-

* Correlation is significant at the 0.05 level (2-tailed).

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

Table 4. Mean, standard deviations and correlation matrix for the combined scenarios

Variables	Mean	Std. Dev.	Avg. EDM	Avg. JS	Avg. OC	Avg. COE	Avg. RWD
Avg. EDM	3.9810	1.14900	-	-	-	-	-
Avg. JS	2.7012	0.94859	.039	-	-	-	-
Avg. OC	4.4619	1.50191	.048	.476(**)	-	-	-
Avg. COE	3.2131	0.93931	.110	.206(**)	.272(**)	-	-
Avg. RWD	3.2440	0.85890	.068	-.153(*)	-.149(*)	-.262(**)	-