EFFECTS OF ETHICAL BEHAVIOUR ON ORGANIZATIONAL PERFORMANCE: EVIDENCE FROM THREE SERVICE ORGANIZATIONS IN LAGOS, NIGERIA.

BY
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Abstract
Many modern organizations are today faced with numerous challenges such as illegal and unethical business practices in a number of business transactions. Most organizations have come up with codes of ethics in dealing with ethical issues challenging them. Code of ethics is the set of moral principles used by an organization to steer the conduct of the organization, and employees in all their business activities both internally and externally. The paper uses a quantitative method with two hypotheses stated in the null form. Results were analyzed with the aid of appropriate test statistics. Findings revealed that ethical behaviour has effects on the performance of an organization and that good ethical behaviour has a positive correlation with organizational performance. Suitable policy recommendations were offered which decision makers in business organizations and government functionaries will find highly useful.

Key words: Ethics; Behaviour; Service; Organization; performance.

INTRODUCTION
Over the years, the term ethics in organizational performance has long been associated with management scholars and business leaders around the world. There is a broad agreement around the world that as a matter of corporate policy, every organization strives to be committed in a manner that is ethically transparent. Steinberg (1994) argued that ethics in the world of organization’s business involve “ordinary decency”
which encompasses such areas as integrity, honesty and fairness. Behaving in an ethical manner is seen as part of the social responsibility of organization, which itself depends on the philosophy that organizations ought to impact the society in ways that goes beyond the usual profit maximization objective Adenubi (2000).

It is often argued in many instances that, it is in the interest of an organization to behave in a way that recognizes the need for moral and ethical content in managerial decision as this will benefit the organization especially in the long run.

Ethical behaviour is characterized by honesty, fairness and equity in interpersonal, professional and academic relationship and it respects the dignity, diversity and the right of individual and groups of people. Legan. (2000). Therefore for an organization to move forward in the aspect of performance, it is however important for such an organization to have a good understanding of ethics and also take it seriously as this can undermine the competitive strength of the organization and the society at large.

Morals spring virtually from every decision, thus organization stability and survival depends on the consistency of quality of ethical decision made by managers. Managers are challenged and encouraged to have obligation on organization performance and society at large, to support and the assist the society to imbibe the ethical culture in which there was the interest of is everyone [Oladunni, 2000].

In recent times, most organizations have come up with codes of ethics in dealing with ethical issues challenging them. Code of ethics as defined by the national institute of the management is a set of moral principle used by organization to steer conduct of the organization itself and the employee, in all their business activities, both internally and externally. According to cole, (1996), he stated that codes are opposed to straightforward policy have advantage of providing explicit guidance on key moral issues that might arise during the course of organization activities.

**Statement of research Problem and objectives.**

Many modern organizations are faced with numerous challenges such as illegal and unethical behaviour in a number of business transactions. Managers are also faced with the challenge of evaluating the effect of this critical behaviour on the performance of
such organizations. Again, many business managers operate their activities today, without keen interest of bothering whether their actions are right or wrong and the extent of employees understanding of the term ethics while the level of compliance is highly infinitesimal, (Oladunni 2002). The way Nigerian society cares little about the source of wealth tend to make some of these business operators to begin to wonder about the necessity of ethics in an organization.

The objectives of this research among others are to: [a] critically x-ray the effects of ethical behaviors on organizational performance. [b] establish whether ethical behaviour has any relationship with organizational performance. [c] show-case the necessity of good ethics to the success and eventual institutionalization of an organization.

The research uses a quantitative method with two null hypotheses, which states thus: (i) Ethical behavior has no effect on organizational performance (ii) There is no relationship between employees ethical behavior and organizational performance. The significance of this study is multi-faceted as it helps in identifying the essence of ethnical behaviour on organizational performance, as this will enhance employees’ performance as things are done correctly in a coordinated member. Moreover, newly established firms and organizations will actually know the place of proper ethical behaviour in the continued existence of such an organization. The research of this nature is very important to developing nations like Nigeria that already has a high level of known corruption and sharp business practices, which have permeated all facets of Nigeria’s national life.

**LITERATURE REVIEW**

Today, many African Nations are faced with the crisis that is making the competitive strength of the business organization more challenging. This crisis involves people in business, customer, and at the peak of unethical behaviour and especially more worrisome is the unethical behaviour among employees at all level of the organization. For example, a recent study found that employees theft ranges from stealing company’s product to using company’s service without authorization, such as making personal long distance calls at work (thereby “stealing” both the call and their productive time
Akinbayo, 2000). Others on the other hand forge checks and commit other type of fraud. All this acts represent theft, Stephen (2000).

Moreover, we easily hear today of illegal and unethical behaviour in many business organizations, such practices as we know occur throughout the world. This therefore reminds us of the challenges that organizations face as the first quarter of this millennium advances with its hydra-headed challenges. There is a great concern of the quality of ethical conduct in all types of organization all over the world in which Nigeria is no exemption. Kolade (1999).

Today, it is indeed no news about the poor attitude of Nigerian workers to work. Kolade [1999] in his remark, made at the quarterly luncheon of the institute of personnel management of Nigeria, Lagos branch in August 1984, reiterates attitude of the Nigerian worker to work. He noted the often-expressed view that Nigerians generally have a poor attitude to work, like most other general statements. Also, Oladunni [2002] once observed that it is believed in Nigeria that people have poor attitude to work or do not like to work, which result in the low productivity in some organizations. This is rooted in the McGregor theory X approach. When people are forced to do things like Nigerians experience during military era, people tend to put in their best and thus behave well.

MEANING OF ETHICS

The terms ‘moral’ and ‘ethical’ are often used equivalent to ‘good’ or ‘bad’ and as opposed to ‘immoral’ and ‘unethical’ Frankene, (1993). Ethics is defined by Miner (1998) as a philosophy of human conduct; reflecting prevailing values especially those a moral nature. According to Kiston, (1996) ethics are moral principles that explain what is right or wrong, good or bad and what is appropriate or inappropriate in various setting. Bucholz [2003], in his work on business ethics, sees ethics as the guiding values; principles and standards that help people determine how things ought to be done. Ethics is a set of standard of right and wrong established by a particular group and imposed on members of that group as a means of regulating and setting limit on behavior, Judith (2003). Ethics are defined as the system of rules that governs the
ordering of values. This idea makes it possible to prescribe a code of behavior for both work and one’s personal life. Robert Cardy (2005).

To sum-up the above definitions, one can therefore define ethics as standard of morality that guides individual and organization in following certain norms of conduct when dealing with each other. It can be said to be the moral evaluation of decision and action as right and wrong on the basis of commonly accepted principles or behavior. More so, it is applied of society relationship.

UNETHICAL BEHAVIOUR: WHY DOES IT OCCUR IN ORGANIZATIONS?

The potential for individuals and organization to behave unethically is limitless. Unfortunately, this potential is too frequently realized. Consider, for example, how greed overtook concerns about human welfare in a number of cases. Companies that dump dangerous medical waste materials into our rivers and oceans also appear to favour their own interests over public safety and welfare. Although these examples are better known than many others, they do not appear to be unusual. In fact the story they tell may be far more typical than we would like, as one expert estimates that about two-thirds of the 500 largest corporations have been involved in one form of illegal behavior or another. Gellerman, (1986).

Unfortunately, unethical organizational practices are embarrassingly very common today. It is east to define such practices as dumping polluted chemical wastes into rivers, overcharging the government for Medicaid services, e.t.c. Yet these and many other unethical practices go on almost routinely in many organizations. Why is this so? In other words, what accounts for the unethical actions in which individuals knew or should have known that the organization was committing an unethical act?

One answer to the question of why individuals knowingly commit unethical actions is based on the idea that organizations often reward behaviors that violate ethical standards. Consider, for example, many business executives and top government officials deal in bribes and payoffs, despite the negative publicity and ambiguity of some laws, and how good corporate citizens who blow the whistle on organizational
wrongdoing may fear being punished for their actions. Jansen and Von Glinow (1985) explain that organizations tend to develop counter norms, accepted organizational practices, which are contrary to prevailing ethnical standards.

Indeed, governmental regulations requiring full disclosure and freedom of information reinforce society’s values towards openness and honesty. Within organizations, however, it is often considered not only acceptable, but also desirable, to be much more secretive and deceitful. The practice of stonewalling, willingly hiding relevant information, is quite common. One reason for this is that organizations may actually not reward those who are too open and honest. Look at the negative treatment experienced by many employees who are willing to blow the whistle on unethical behavior in their organization.

Many other organizational counter norms that promote morally and ethnically questionable practices. Because these practices are commonly rewarded and accepted suggest that organization may be operating within a world that dictates its own set of accepted rules. This reasoning suggests another answer to the question of why organizations knowingly act unethically namely, because managerial values exists that undermine integrity. In an analysis of executive integrity, Wolfe [1999] explains that mangers have developed some ways of thinking (of which they may be quite unaware) that foster unethical behavior.

Within the literature on corporate illegality, the predominant view is that pressure and need force organizational members to behave unethically and develop corresponding rationalizations; however, according to recent research this explanation only accounts for illegal acts in some cases; Baucus and Near, (1999). In their data, poor organizational performance and low organizational slack (the access that remains once a firm has paid its various internal and external constituencies to maintain cooperation) were not associated with illegal behavior, and wrongdoing frequently occurred in munificent environments.
THEREFORE, WHAT THEN IS ETHICAL BEHAVIOUR?

Ethical behaviour is acting in ways that are consistent with one’s personal values and the commonly held values of the organization and society,[Nielsen,1999a]. Unethical behaviour by employees can affect individuals, work teams, and even the organization (Arlow,2000,). Organizations thus depend on individuals to act ethically. Several years ago, a company launched a program to integrate its ethical standards into everyday business conduct (Wagel, 1987). It developed a booklet of ethical standards, distributed it to all employees, and undertook a massive training effort to express to all employees the importance of ethical behaviour.

Interestingly, today, it is worthy to note that high-intensity business environment makes it more important than ever to have a strong ethical program in place. In a survey of more than 4,000 employees conducted by the Washington, D.C. – based ethics resource centre, one-third of the employees said that they had witnessed ethical misconduct in the past year. Ethics and ethical behavior go hand in hand. Formally defined, ethical behavior refers to that which is morally accepted as ‘good and right’ as opposed to ‘bad and wrong’ in a particular situation. Silver Stein (1989). It is therefore the principle relating to what is right and wrong. Scholars have enumerated some essential elements of ethical behaviour as regards organizational concerns. These essential elements according to Crosby [1997]; Robbins [2001] Bucholz [2003] amongst others, include: Integrity; Accountability; Code of ethics/ethical programmes; ethical decision making; and ethical environment.

As regards ethical climate of an organization, it is the shared set of undertakings about what correct behavior is and how ethical issues will be handled. This climate sets the tone for decision making at all levels and in all circumstances. Some of the factors that may be emphasized in different ethical climate of organizations according to Hunt [1991]; Robbins [2001]; are: personal self interest; company profit; operating efficiency; individual friendships; team interest; social responsibility; personal morality; Rules and standard procedures; Laws and professional codes e.t.c.

The ethical climate of different organizations can emphasize different things. When the ethical climate is not clear and positive, ethical dilemmas will often result in unethical behavior. In such instances, an
organization’s culture also can predispose its members to behave unethically. For example, recent research has found a relationship between organizations with a history of violating the law and continued illegal behavior. (Baucus and Near, 1991). Thus, some organizations have a culture that reinforces illegal activity. In addition, some firms are known to selectively recruit and promote employees who have personal values consistent with illegal behavior; firms also may socialize employees to engage in illegal acts as a part of their normal. Job duties, pressure, opportunity and predisposition can all be due to unethical activities, however, organizations must still take a proactive stance to promote ethical climate. Churchill et al. (2000) suggest that within the organizational environment there are five categories of variable that have an effect on individual performance: (1) goals, objectives, and culture; (2) personnel; (3) financial resources; (4) production capabilities; and (5) research and development. Whereas the focus in the current study is on both short-term and long-term performances, an argument can be made that efficiency and effectiveness of employees may be influenced negatively if their work climate includes a cue that indicates prevalent unethical actions.

**ANALYSIS AND DISCUSSION OF FINDINGS**

This study was conducted among three service firms. During the study, sixty-six questionnaires were distributed among three leading advertising agencies in Lagos in equal proportion. After the questionnaires were harvested, sixty-four were returned. However, four of the returned questionnaires were rejected because they were not properly filled. So, this research is based on the returned sixty questionnaires that were properly filled. Findings from the analyzed questionnaires were highly revealing and educating as it shows the effect that good ethical behaviour will have on organizational performance. Findings also reveal the level /kind of relationship that exist between employees’ ethical behaviour and organizational performance.

In the testing of hypotheses, Pearson correlation was used to test the second hypothesis while the chi-square was used to test the first hypothesis as it involves counting the number of response for options provided in the questionnaires.

**HYPOTHESIS 1. Ethical behavior has no effect on an organization’s performance**

Table 1.
<table>
<thead>
<tr>
<th></th>
<th>Observed N</th>
<th>Expected N</th>
<th>Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>33</td>
<td>20.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Agree</td>
<td>24</td>
<td>20.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Uncertain</td>
<td>3</td>
<td>20.0</td>
<td>-17.0</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: field survey, 2010

Table 2.

<table>
<thead>
<tr>
<th></th>
<th>Observed Frequency</th>
<th>Expected Frequency (E)</th>
<th>(0 – E)</th>
<th>(0 – E)^2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>33</td>
<td>20.0</td>
<td>13</td>
<td>169</td>
</tr>
<tr>
<td>Agree</td>
<td>24</td>
<td>20.0</td>
<td>4.0</td>
<td>16</td>
</tr>
<tr>
<td>Uncertain</td>
<td>3</td>
<td>20.0</td>
<td>-17</td>
<td>289</td>
</tr>
<tr>
<td>Disagree</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td></td>
<td></td>
<td>23.7</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2010

Using Chi-Square

\[ X^2 = \sum \frac{(O - E)^2}{E} \]

\[ X^2 = 23.7\% \]

DF; Degree of freedom = 3-1 = 2

Tabular \( x^2 \) at 0.05 and 2 degree of freedom = 5.99

Decision Rule
Calculated is greater than tabulated $x^2$ i.e. $23.7\% > 5.99$

Therefore, null hypothesis (H0) is rejected and the alternative hypothesis (H1) is accepted. This shows that ethical behavior has an effect on organizational performance.

**Test Statistics**

| Ethical behavior has an affect on an organization’s performance. |
|---|---|
| Chi – Square (a) | 23.700 |
| df | 2 |
| Asymp. Sig. | .000 |

0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 20.0

**HYPOTHESIS TWO**

3) H0: There is no relationship between employee ethical behaviour and organization performance.

   H1: There is a relationship between employee ethical behaviour and organization performance.

**Table 3. Correlation**

<table>
<thead>
<tr>
<th>EB</th>
<th>OP</th>
</tr>
</thead>
<tbody>
<tr>
<td>EB, Pearson Correlation sig. (2tailed)</td>
<td>EB, 1, .610(**), N, 60, 60</td>
</tr>
</tbody>
</table>
OP     Pearson Correlation     Sig (Tailed)     N  
              .610(**).000     60     60

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

**Coefficient of determinant (COD)**

The coefficient of the determinant is given by the formula

\[ C.O.D = r^2 \times 100 \]

Where \( r = \) Pearson Correlation = 0.610

Correlation is significant at 0.001 levels (2-tailed)

\[ = (0.610)^2 \times 100 \]

\[ = 0.3721 \times 100 = 37\% \]

The correlation of \( r = 0.610 \), mean 37% shared variable between ethical behavior and organizational performance. This implies that ethical behavior helps to explain to explain % of the variance in the respondent’s scores on the organizational performance scale.

**DECISION**

The correlation \( r = 0.610 \) between ethical behaviour and organizational performance is significant at that level. Thus rejecting the null hypothesis (H0) and accept the alternative hypothesis (H1). This implies that there is a relationship between ethical behavior and organizational performance.

**CONCLUSION**

It must be emphasized that the challenge of ethical behaviour must be met by organizations if they are truly concerned about survival uprightness, integrity, and competitiveness. What is needed in today’s complicated times is for more organization to step forward and operate with strong, positive and ethical cultures. Organizations must ensure that their employees know how to deal with ethical issues in their everyday work lives. As a result, when the ethical climate is clear and positive, everyone will know what is expected of him or her when the inevitable ethical
dilemmas occur. This will definitely give employees the confidence to be on the lookout for unwanted unethical behaviour and act with the understanding that what they are doing is correct and will be supported by top management of the organization.

POLICY ISSUES AND RECOMMENDATIONS

Promoting an Ethical Climate: Some Suggestions and Strategies

- Chief Executives should encourage ethical consciousness in their organizations from the top down showing the support and care about ethical behaviour. The philosophies of top managers as well as immediate supervisors must represent a critical organizational factor influencing the ethical behaviour of employees.

- According to Nielsen,[1999b], managers behaving unethically contrary to their ethical philosophies represents a serious limit to ethical reasoning in the firm. Managers represent significant others in the organizational lives of employees and as such often have their behaviour modeled by employees.

- Research in ethical behaviour strongly supports the conclusion that of ethical behaviour is desired; the performance measurement, appraisal and reward systems must be modified to account for ethical behaviour.

- Organizations should also enhance an ethical-oriented culture by paying particular attention to principled organizational dissent. Principled organizational dissent is the effort by individuals in the organization to protest the status quo because of their objection on ethical grounds, to some practice or policy. Organizations committed to promoting an ethical climate should encourage principled organizational dissent instead of punishing such behaviour.

- Organizations must strive to provide more ethics training to strengthen their employees’ personal ethical framework. That is, organizations must devote more resources to ethics training programs to help its members clarify their ethical frameworks and practice self-discipline when making ethical decisions in difficult circumstance.

- There is the need for organizations to help their employees in dealings with ethical challenged by adhering to the following steps.

  [a] Recognize and Clarify the Dilemma.
  [b] Get all the possible facts
An effective organizational culture should encourage ethical behaviour and discourage unethical behaviour. Admittedly, ethical behaviour might cost the organization some fortunes. An example might be the loss of sales when a multinational firm refuses to pay a bribe to secure business in a particular country. Certainly, individuals might be reinforced for behaving unethically (particularly if they do not get caught). In a similar way, an organization might seem to gain from ethical actions. For example, a purchasing agent for a large corporation might be bribed to purchase all needed office supplies from a particular supplier. However, such gains are often short-term rather than long-term in nature. In the long run, an organization cannot operate if its prevailing culture and values are not congruent with those of the society.

Tips to enhance Ethical Behaviour in an Organization

- Be realistic in setting values and goals regarding employment relationships. Do not promise what the organization cannot deliver.
- Encourage input throughout the organization regarding appropriate values and practices for implementing the cultures. Choose values that represent the views of employees at all levels of the organization.
- Do not automatically opt for a “strong” culture. Explore methods to provide for diversity and dissent, such as grievance or complaint mechanisms or other internal review procedures.
- Insure that a whistle-blowing and/or ethical concerns procedure is established for internal problem solving. Harrington (1991).
- Provide ethics training programs for all employees. These programs should explain the underlying ethical and legal principles and present practical aspects of carrying our procedural guidelines.
Organizations should learn to integrate ethics into their organizational management.

System audit, examining guides and procedures against stated organizational objectives and values should be regularly taken.

Unethical behaviour should be avoided by all means in any organizations.

Top managers on their own part should see themselves as role models, be oriented and also realize that ethical behaviour can be managed and the only way is avoid ethical dilemmas.

An organization should ensure to have good code of ethics.

Organizations should endeavour on their part to reward employee’s actions that in line with the ethical demand made on staff by members. On the other hand, employees that do not meet such demands should be sanctioned or punished.

Employees need clear and consistent message on the importance of ethical behaviours. Most organizations do send countless messages about competition, and market performance without bothering much on the company’s ethical values.

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