Managerial Ethical Behaviour: Results of a Comparative Study
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Introduction

Issues connected with business ethics have recently acquired prominence in the changing business scenario. The anxiety of global investors in emerging markets about not only the quality of management but also the ethical framework for decision-making and the collapse of the South East Asian countries have stressed the issue further (Vittal, 1999). The collapse of the Currencies of these countries from mid-1997 brought home to investors abroad and institutions like the World Bank that corruption in the financial sector could be disastrous. The issue of business ethics is now closely linked with international financial aid given by multilateral agencies. Besides, the businesses that are perceived as ethical and socially responsible seem to be performing better financially too (Cochran and Wood, 1984). The World Bank emphasizes the need for business ethics and claims that if a country is perceived to be corrupt, it will get 20 per cent less foreign direct investment (FDI) and if it is perceived to be very corrupt, it may get 35 per cent less FDI.

Over the years, business ethics has been analysed from a number of perspectives. Some researchers (e.g., Arrington, 1982; Werhane, 1984) have focused on the organization and its impact on the customers, employees, other stakeholders, and the society. Others (Hunt and Vitell, 1986; Rest, 1986) have focused on individual managers. The individual managers are the focus of research because they are required to make decisions that influence not only the future of their organizations but also of the people who work for them, the consumers who use their products, stockholders who may have invested their savings in the company, and the members of the society as a whole. This implies that all managers have to become their own moral philosophers and apply moral thinking to the decisions they make and actions they take in discharging their duties (Buchholz, 1989; Hyman, Skipper and Tansey, 1990). Ethics has to be considered as an inextricable part of managerial decision process, and it is essential for managers to maintain an active concern for ethical integrity (Gupta and Sulaiman, 1996).
Ethics involves an examination of the morals used by individuals and groups and their applicability in real life situations. Hence, it is the individual's or the group's logic, norms or principles used in decision-making which is at the heart of ethical behaviour.

Individuals develop a network of ethical norms and principles through the process of socialization (Kohlberg, 1981), which constitutes their ethical philosophy and affects their decision-making in situations involving an ethical component. There is little doubt that individual attributes relate to moral reasoning and ethical conduct, but it has been argued by researchers that they may not be the only factors involved. The situational approach asserts that the situational aspects such as organization's reward system, peer influence, the influence of superiors and organizational norms have a demonstrable effect on the ethical decision behaviour of the individuals. The environment in which the organizations exist has shown to be an important determinant of ethical behaviour.

One situational factor that has been traditionally considered particularly relevant is the nature of the market in which the organizations exist. Typically, researchers have focused on the issues of "planned economy" versus free markets. The debate has largely focused on the societal or public welfare as an outcome. Lodge (1990), for example, has identified "individualism" and "communitarian" ideologies, wherein the latter includes elements of government control and the former places emphasis on free markets. Lodge (1990) argues in favour of more communitarian mechanisms for the US, especially in the light of Japan emerging as an economic power. One of the prime defenses in favour of unregulated free markets is based on the utilitarian argument that such markets produce greater benefits as compared to any other system. Adam Smith (1723-1790) was the originator of this argument, stressing on the selfish motive of the people and rests his tenets on this basic human nature. In one of his most famous quotes, Be asserts that, "It is not from the benevolence of the butcher, the baker, and the brewer that we expect our dinner but from their regard for their own self-interest" (Smith, 1776, p.4). He further adds that when individuals or organizations are left free, the invisible hand of the market results in "public welfare." As he states, "By pursuing his own interest, he frequently promotes that of society more effectively than when he really intends to promote it" (Smith, 1776, p.423). Thus, the nature of the market in which the business is done seems to be a strong predictor of ethical activity. Though Adam Smith (1776) and others (e.g., Hosmer, 1987) believe that by focusing on their individual selfish interests, "Businesses would act morally under the control of the market, there are many who feel that the market and the competitiveness itself may lead to unethical practices (Chakraborty, 1991; Lunati, 1996; McKenna, 1996).

Public and private sector organizations provide a good case study to test this assertion. In India, public and private sector organizations present a contrast not only in terms of the internal dynamics but also in terms of the environment (market) in which they exist. Public enterprise in India confines itself to central/state government industrial and commercial enterprise organized as an autonomous corporation or a company. Public sector in India has emerged not as a result of nationalization of private industries but by the taking up in hand the responsibilities of industries of national importance by the state. Many public sector organizations are engaged in heavy investment and high-risk sector as well as promotion of public good and protecting the interests of the consumers. For this reason, the goals and ethos of the public sector are qualitatively different from those of private sector. As a consequence of this and other factors, public sector organizations have been operating in a protected environment with government control.

Most of the work relating to markets and ethics has focused on societal good with little or no focus on the individual managers within the organization. This study focuses on individuals in public and private sector organizations. Specifically, it aims to compare the nature of decision-making (ethical or unethical) by the managers in public and private sector organizations to test the above-mentioned assertion.

Methodology

Research Site

The study was carried out in ten organizations located in and around Delhi, of which five each were from public and private sector organizations. Only big organizations having turnover of above Rs 100 crore and employing more than 500 people were included in the sample. The sample organizations were taken from diverse areas of activity and were all profit-making (for details of the companies, see Sharma, 2000). A brief description of the organizations is in Box 1.

Sample

Altogether 319 executives from ten different organizations constituted the sample for the study. Participants...
Box 1: Sample Organizations


Private Organization (Pvt. Org.) 1: has specialized in water and wastewater treatment for over three decades. Private Organization (Pvt. Org.) 2 manufactures toad markets automotive and industrial lubes. Private Organization (Pvt Org.) -3 is a software organization having its operations all over the world. The products of the company are software, services, and document processing systems. Private Organization (Pvt Org.) -4 is a cigarette company in India. Private Organization (Pvt Org.) -5 was incorporated in 1962 and went public in 1973. The company manufacture s branded generic Pharmaceuticals, bulk drugs, and intermediates.

from different divisions of the organizations like production, accounts, sales, personnel, etc. and from all the time, i.e. lower, middle, and higher managerial levels were included. An organization-and gender-wise split of the sample can be seen in Table 1.

One hundred and ninety-one managers from the public sector and 128 from the private sector responded to the questionnaire. Though it was intended to conduct a gender-wise analysis too, a very small sample of 1: Oranization and Gender-wise Cross in of the Respondents

<table>
<thead>
<tr>
<th>Organization</th>
<th>Gender</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Men</td>
<td>W</td>
</tr>
<tr>
<td>Fob. Org.1</td>
<td>38</td>
<td>0</td>
</tr>
<tr>
<td>Pub. Org.2</td>
<td>44</td>
<td>3</td>
</tr>
<tr>
<td>Pub. Org.3</td>
<td>31</td>
<td>0</td>
</tr>
<tr>
<td>Pub. Org.4</td>
<td>30</td>
<td>11</td>
</tr>
<tr>
<td>Pub. Org.5</td>
<td>27</td>
<td>0</td>
</tr>
<tr>
<td>Pvt. Org.1</td>
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<td>2</td>
</tr>
<tr>
<td>Pvt. Org.2</td>
<td>21</td>
<td>0</td>
</tr>
<tr>
<td>Pvt. Org.3</td>
<td>27</td>
<td>1</td>
</tr>
<tr>
<td>Pvt. Org.4</td>
<td>21</td>
<td>1</td>
</tr>
<tr>
<td>Pvt. Org.5</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>Total</td>
<td>294</td>
<td>25</td>
</tr>
</tbody>
</table>


women respondents precluded this analysis. In all, there were 25 women respondents and 294 male respondents.

Questionnaire

The questionnaire used in the study was scenario-based. Initially, 20 scenarios were identified after scanning the literature. After discussions with the practising managers (MBA part-time students at IIT, Delhi) and experts, five scenarios were finally included in the study (for details, see Sharma, 2000). Ethical decision-making was assessed through five situations wherein the respondents could either make a ‘values’ (strongly disagree and disagree) response or a ‘compromise’ (strongly agree and agree) response. These two dimensions formed two poles of a continuum with neutral as the mid point. Compromise was defined as the response of an individual to a situation of ethical dilemma where the decision is taken based upon the need of the situation rather than considering what is considered morally correct in fee society commonly and it would be considered unethical. Values Decision was defined as the response to die situation of ethical dilemma, which is socially considered morally correct Thus, the unethical responses were termed as Compromise and the ethical ones were termed as Values. The five situations included in the questionnaire were:

- New and improved marketing strategy
- Gifts and bribes
- Padding up the expense bills
- Nepotism
- Insider trading (see Annexure for the situations).

At the end of each vignette, a decision was taken and the respondents were asked to give their responses on a five-point scale as to what extent they agree or disagree with the decision. On the continuum, higher score meant compromise and lower scores meant values dimension of ethical decision-making.

Results and Discussion

With the objective of assessing the nature of decision-making in the public and private sector Organizations, the responses of the managers in five given situations are analysed. The responses ranged from 5=strongly agree (compromise) to 1=strongly disagree (values). Before testing for the significance of the differences, frequencies of the responses are reported to give an indication of the trend.

The first situation concerned new and improved marketing strategy. The situation involves using unethical means for the benefit of the company. Responses of the managers from the two types of organizations are reported in, Table 2.
Table 2: Frequency of Responses: "New and Improved Marketing Strategy" (Situation 1)

<table>
<thead>
<tr>
<th>Response Category</th>
<th>Private Sector</th>
<th>Public Sector</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Frequencies</td>
<td>Percentages</td>
</tr>
<tr>
<td>Total</td>
<td>125</td>
<td>97.7</td>
</tr>
<tr>
<td>Values</td>
<td>1</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>Naomi</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Compromise</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>125</td>
<td>97.7</td>
</tr>
</tbody>
</table>

Note: 1 and 2 = Strongly Disagree and Agree (Values); 4 and 5= Agree and Strongly Agree (Compromise).

It is interesting to note that the responses of the managers from the private sector tend to be more towards unethical end as compared to the public sector managers.

Situation 2 Was concerned with gifts and bribes. Table 3 reports the responses from the sample managers. For this situation, values responses from the public sector managers are lesser than those of the private sector managers and compromise responses are higher for public sector managers. Gifts and bribes have benefits for the individual as opposed to the first situation.

Situation 3 concerns a practice of padding up the expense bills by the employees. A look at Table 4 reveals that the values responses from the public sector managers are fewer as compared to the private sector managers. Public sector employees make more compromise response in this situation. This situation again benefits the individual.

Situation 4 concerns nepotism, wherein favours are given to one's relatives and friends. Frequencies are given in Table 5. For this situation, though the values responses are more or less the same for both, i.e., public and private sector managers, there are more neutral responses from the private sector managers and relatively more compromise responses from the public sector managers. For this situation in particular, public sector employees were expected to give more compromise responses, however, the percentage of managers giving a values response is more or less the same for both of them.

Finally, situation 5 deals with insider trading. Frequencies of the responses are given in Table 6. Maximum number of private sector managers have given a neutral response, though more public sector managers have given a values as well as compromise response as compared to the private sector. Public sector managers have more extreme views on this as compared to the private sector managers.

To test for the significance of the difference between the public and private sector organizations, t-tests for responses on each of the five scenarios were conducted. Table 7 reports the results of the t-test.

It can be seen that the managers of the public and private sector organizations differ significantly in two out of five situations.

The study shows some interesting results. It is evident from Table 2 that the difference in the nature of decision (ethical or unethical) made was significant in two out of five vignettes.

Vignette 2 was about "gifts and bribes." It was observed that, in case of vignette 2, public sector
employees scored higher towards dimension of compromise, i.e., they felt no inhibition in receiving or giving gifts and bribes. In case of vignette 3, which was related to "padding up the expense bills," the public sector employees scored significantly higher on compromise dimension. The vignettes with no significant differences observed were "new and improved marketing strategy" (vignette one); "nepotism" (vignette four); and "insider trading" (vignette 5). It was interesting to note that even if the difference between public and private sector respondents was not significant, in four out of five vignettes, the public sector respondents scored higher, i.e., towards compromise dimension of the ethical decision-making. It was also observed that all the four vignettes where respondents from the public sector organizations scored higher on compromise dimension were related with individual benefits.

The only vignette, which was directly concerned with the benefit for the organization without any direct benefit for the employee, was vignette one: new and improved marketing strategy. In case of vignette one, though the difference was not significant, the respondents from the private sector organizations scored higher on compromise dimension of ethical decision-making. Case studies of one public and private sector organization also supported the results of this study (Bhal and Sharma, 2000 a and b).

**Implications**

The unethical activity of the public sector managers centres around bribe-giving/ taking and padding up die expense bills. Shekhar (1997) uses the utilitarian approach and appealing to conscience as two possible ways of explaining this kind of unethical behaviour and concludes that it is usually the economic logic which is at the heart of such activities.

Maheshwari (1985) observes that the organization structures in public sector were flabby with too many levels and provided ample scope for diluting accountability. Control systems are petty-minded and inappropriate for the size of these organizations. Controls are not output-oriented, and detailed controls tend to be ineffective. The results of our study do provide support to the market-oriented systems as possible controls for unethical behaviour at the individual level of the employees. This supports the basic ideology of the selfish interest of the owner as a control against unethical behaviour of the employees. This nature of control also has implications for the principal-agent relationship as propounded in Agency theory, which is centred around studying the relationship between two parties where one (principal) delegates work to another party (agent) (Jensen and Meckling, 1976). This relationship in a public sector organization takes a new dimension as the principal is diffused and has no financial stake in the performance of the organization. However, when both the principal and the agent work for the same rewards, chances of self-serving unethical behaviour are few (Eisenhardt, 1989; Jensen and Meckling, 1976). Lack of clear-cut ownership (principal) may mean a diffused sense of responsibility and accountability on the part of employees. Fama (1980) highlighted the role of capital and labour markets as information mechanisms that are used to control the self-serving behaviour of the executives in an organization.

Thus, the nature and level of unethical activity varies between public and private sector organizations owing to the differences in the nature of ownership. This difference has implications for the design of control systems in these two types of organizations.

In public sector organizations, the individuals are likely to work towards their own individual ends. In the absence of a clear owner with the objective of value maximization and profit earning, these attempts are
likely to go unnoticed. Hence, in these kinds of organizations, individual control systems need to be built in. Conscious efforts need to be made to develop a culture and system which reinforce appropriate values. Both primary as well as secondary ways may be used to signal the importance of ethicality and values (Schien, 1985). Primary means include criteria for promotion and selection mechanisms. Through these systems, organizations can reward and reinforce appropriate values. Secondary means are the design of structures, systems, and procedures to check for any deviation from the desired. Although, public sector organizations have these systems, the implementation of and adherence to these systems may be lacking.

In a private sector organization, though the individual activity within the organization may be controlled, there is a likelihood of use of unethical practices by the organization to pursue its own interests. Thus, it is likely that the organization uses resources like the environment, people, and the society unethically. This requires a control of the corporate level activities. These controls can come either from outside the organization (external) or from within the organization (internal). The external control groups include pressure groups (e.g., NGOs, consumer interest groups) and the government. Government has been a primary mechanism of external control. Even in the US, where traditionally the government's role has been predominantly that of protection against anti-competitive activity, there are attempts to safeguard the interests of other stakeholders like the consumers, employees, and the society through acts like Environment Protection Act (EPA) and Occupational Safety and Health Administration (OSHA). Thus, the government in India too has to play a proactive role in safeguarding these interests. Besides, there are internal mechanisms of control too that the organizations employ. They are numerous and vary from the use of corporate social audits to employment of professional code of ethics to the creation of a corporate body that manages the issues of corporate social responsibility.

The focus and nature of control against unethical activities in public and private sector organizations may be different owing to the differences in the genesis and manifestation of these activities in these two types of organizations.

Annexure: Five Situations

Section 1
Following are some of the situations that individuals and organizations may face in their day-to-day transactions. Read each situation very carefully and on the scale given at the end of each scenario write your response.

Vignette 1
You are the head of the marketing department in your company. Due to the stiff competition in the detergent market (that is one of your company's prime products), you are looking for an idea to increase the sale of this product. The advertising people come up with a suggestion of falsely putting "new and improved" on the product packaging and advertising, knowing that the statement is not true but it will increase the sale.

1) I would Strongly..........Agree........Neutral......Disagree......
   Strongly with this plan.
   Agree        Disagree

Vignette 2
Your product has a good potential for sale in the institutions. But in institutional sales, due to the high cost of your product, the whole procedure of selling and then collecting the payment is quite long and time consuming. To deal with the problem, a proposal comes for appointing a sub-agent to handle market development and necessary gift giving and money transfers. It means high monetary benefits for you too.

2) I would Strongly.....Agree.....Neutral......Disagree......
   Strongly with the decision.
   Agree        Disagree

Vignette 3
One of the marketing executives in your company is showing very good results. In fact, he is the only one to meet the given monthly sales targets. His working also involves travelling. But the company comes to know that he has been padding his travelling expense bills. But you do not fire him in spite of his dishonesty.

3) I would Strongly.....Agree.....Neutral......Disagree......
   Strongly with the decision.
   Agree        Disagree

Vignette 4
You are in the board of a selection committee for the post of manager-works. Instead of selecting a more experienced long-term employee, you favoured your first cousin who also appeared for the interview and is well qualified for the post.

4) I would Strongly.....Agree.....Neutral......Disagree......
   Strongly with the decision.
   Agree        Disagree

Vignette 5
A corporate learned that his company intended to announce a stock split and increase the dividend. On the basis of this information, he bought additional shares and sold them at a gain following the announcement.

5) I would Strongly.....Agree.....Neutral......Disagree......
   Strongly with the decision.
   Agree        Disagree
Bibliography


Hyman, M R; Skipper, R and Tansey, R (1990). "Ethical Codes are not Enough," Business Horizons, March-April, p16.


