Business Ethics and Corporate Growth

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Abstract

This study was carried out to ascertain the impact of business ethical code of conduct on corporate growth in the wake of several corporate fraud, misstatement and misrepresentation.

This study employed the survey research design. Business ethics and corporate growth questionnaire (BECGQ) was developed and 100 of the BECGQ were administered, out of which 80 were completely filled and returned. The Pearson product moment correlation was used to test the analysed data at 50% significance level.

The study revealed that adoption of business ethical code of conduct and employee adherence to rules and regulations enhance corporate growth. The study also revealed that there is no significant relationship between corporate growth and corporate adherence to rules and regulations. The study therefore recommended that business ethics should be align with the corporate structure, goals and culture in order to enhance corporate growth.

Key words: Business ethics, Corporate growth, rules and regulations

Introduction

Societal ethics provide the bases on which a civilized state exists. Without these ethics civilization collapses. The same is true of business ethics to the business organization. It provides the footprint on which organizational culture and structure is founded (Dombin, 2012). Ethics are code of values and principles that governs the action of a person, or a group of people regarding what is right versus what is wrong (Levine, 2011). Business ethics is the behaviour that a business adheres to in its daily dealings with the world. They apply not only to how the business interacts with the world at large, but also to their dealings with customers (Dombin, 2012).

The growth of business organization relies on its sound ethical code of conduct set to guide both management and employee in its daily activities. The importance of business ethics in this modern day business organization have been brought to light by corporate fraud unethical issue that span the corporate world in the last 12 to 15 years, which have led many regulatory authority to stipulate rules, law and standard which businesses must adhere to in their day-to-day governance (Ponemon & Michaelson, 2000; Steve, Steensma, Harrison & Cochran, 2005).

Some developing economy are still struggling to come out of the economic meltdown. As noted by Primeaux and Stieber, (1994) “the business enterprise is besieged by popular misconceptions as well as by legal, religious and academic theorists anxious to prove that business seeks only self serving aggrandizement, i.e. to maximize its profits and to do so at any cost to the consumer, the community and the environment”. Business encounters many ethical dilemma in their daily business activities, some are significant while others are not. There is high conflict between ethics and business.

Dombin 2012 states that some individuals and business are tempted to act unethically, particularly in the short run, where there is a one-short opportunity to “make a killing”. He further states that in such case, the unethical individuals or organization gains while other individuals, companies, societies or future generation lose. Where business ethics code of conduct is lacking, there seem to be crisis, corporate fraud, oppression and falsification or misrepresentation of financial records which may lead to averse effect on the state of the economy. Therefore, business ethics is a panacea for organization growth. If well formulated and directed to the core value of the business entities will lead to economic growth.

Statement of the Research Problems

Even where Business ethics are available to guide the activities of business management, there are still situations where these business ethics are not followed or adhered to by business manager. In such a case there
are bound to be business collapse, fraud and misrepresentation which negate corporate growth. Business ethics being already a major issue in contemporary organization life, one can certainly argue that the fundamental question of whether the codes are actually put into practice (Hiironen, 2004) or whether they are just decorative documents needs to be assessed.

Most of the previous studies found in the literature on business ethics and corporate growth or performance were done in the developed economies. Not much work has been done in an emerging economies, especially Nigeria where corporate growth is much needed to boost the wellbeing of its stakeholders. In addition, few studies has empirically tested the relationship between business ethics and corporate growth in Nigeria known to the researchers. Since there is a growing concern of business ethics in relation to long term corporate sustainability and growth, then it is of significance to embark on this study to empirically test the relationship between business ethics and corporate growth in Nigeria. The following research questions were raised to address this problem.

1. To what extent does employee adherence to regulations enhance corporate growth?
2. To what extent does corporate adherence to rules and regulations enhance corporate growth?
3. What is the relationship between adoption of business ethics and corporate growth?

Objectives of the Study

The broad objective of this study is to find out whether business ethics have any impact on corporate growth. The specific objectives are to:
1. ascertain if there is a relationship between employee adherence to regulations and corporate growth.
2. determine the relationship between corporate adherence to rules and regulations and corporate growth.
3. examine the relationship between adoption of business ethics and corporate growth.

Research hypothesis

The following are the research hypothesis;

Ho1. There is no significant relationship between employee adherence to regulations and corporate growth.

Ho2. There is no significant relationship between corporate adherence to rules and regulations and corporate growth.

Ho3. There is no significant relationship between adoption of business ethics and corporate growth.

Literature Review

Business ethics is defined as the rules, standards, codes, or principles that provides guidance for morally appropriate behaviour in managerial decision relating to the operation of the corporation and business’s relationship with the society (Sexty, 2011). To Heysel (2013) business ethics is a set of guidelines for business people to use to avoid making a wrong decision. Business ethics has evolved over the years, with growing concern to curtail the activities of managers in the management of the organization. Peters and Waterman, 1982, (as cited by Elias, 2005) show that nearly all highly performance firm have at the core a well-established set of shared values, particularly ethical values.

Ethical code from organization to organization varies but it content or message remains the same all through as it is geared towards enhancing organizational performance. Ethical codes are aligned with the organisational culture, mission, vision and objective statement and the core values of the organisation in order to maximise corporate growth. Hosmer, 1994; and Jones, 1995 (as cited by Berrone, Surroca and Tribo, 2005) argue that ethics are good business investment because it generates positive externalities like trust and commitment with relevant stakeholders, which in turn assure long-term performance. According to Beer (2009) many of the Wall Street companies that collapsed during the economic crisis of 2008 result from their lack of focus on customer service, lack of clear business strategies, and their propensity to over prioritize profits at the expense of commonly accepted ethical practices.
Theoretical Framework

Stakeholder Theory of Business Ethics

Freeman 1984 (as cited by Elias, 2005) advocated the stakeholder theory which states that corporate entities are responsible to many stakeholders which includes consumers, investors, employees, shareholders, government and the general public. Business ethics help management to align with their different interest group in a bid to maximise their welfare. Stakeholder theory can also set the stage for effective measurement of corporate social overall performance by distinguishing between stakeholder issues and social issues. Business ethical code of conduct help to resolve these issues confronting corporate organisation. Stakeholder theory provides a structural and rationale for understanding and explaining why building ethics into planning and operations is a sound management strategy. It provides a framework for understanding why firms with records of ethical management might be expected to outperform competitors lacking this focus on the medium or long term measure by conventional financial and market test of performance. (Clarkson, 1998).

Corporate and Employee adherence to rules and regulation.

Adherence to clear code of conduct, proper ethics training, open communication and colleague's influence can definitely strengthen employee commitment to ethical customs (Kaptein, 2009). Organization cannot achieve sustainable growth without gaining the trust of all its stakeholders, (customers, shareholders, investors, suppliers, employees or the local communities). Corporate entities adherence to statutory and non statutory rules and regulations help build its trust among stakeholders. Business ethics aims to guard both corporate bodies and employees to always adhered to rules at all cost, that is, to be fair in all aspect.

Tyler (2005) highlighted two approaches to adherence to rules and regulations. They are; the command-and-control approach and the self regulatory approach. The command and control approach is a strategy that relies on external regulation whereby employee behaviour is controlled by managers through their ability to implement sanctions and to punish undesired behaviour (Tyler, 2005). The self-regulatory approach stresses the role an employee’s ethical values play in motivating rule adherence and in particular those ethical values that are related to, and developed in the course of interactions with organization running (Tyler, 2005).

Adoption of Business Ethics and Corporate Growth

According to Friedman (1970), no moral claim may be made on those in corporate business other than to fulfill their implied promise to their clients, namely to secure for them the greatest possible economic benefits “while conforming to the basic rules of the society, both those embodied in law and in ethical custom”. Business ethics is known to integrate core values, such as honesty, trust, respect, and fairness into strategic management, policy-making, practicing management, and decision-making (Onyeaghala-Obioma & Anele 2014). The main contribution that adoption of business ethics has on the business activities is that it serves to focus attention on the things that really matter; the relationship between business and the society, the production of goods and services for customer and client, the quality of working life experienced by employees regardless of rank and status, and the importance of the individual as a social agent (Smith and Johnson, 1996, (as cited by Hironen, 2004).

According to the Consultative committee of Accountancy Bodies (CCAB) 2014, an ethical code of conduct must contain the following objectives: demonstrating a commitment to ethical behaviour evidenced by the tone and specific behaviours of those who lead the organisation; enhancing the organisation’s reputation; supporting harmonious relationships within the organisation; enhancing relationships with third parties; managing risks associated with ethical decision-making; setting out a standard of behaviour within a disciplinary framework; demonstrating effective governance arrangements and providing effective ethical guidance and support.

The adoption of business ethics by entities will help resolved or addressed some ethical issues confronting them. Such ethical issues as identified by institute of Chartered Accountant of Australia in a field research include: insider training, illegal political contributions, environmental violation, health or safety violation, improper use of competitor’s information, anti-competitive practice, sexual harassment, substance abuse and stealing. A well-designed and well-implemented business ethics program provides all members of an enterprise with the guidance and information they need for effective, efficient, and responsible choices and actions.
Empirical Evidence

Halbert and Ingulli (2003) in their study found out that there is a fundamental disparity between wealth maximization and business ethics in describing a study involving roughly 2,000 MBA students. They also found that the students believed in wealth maximizing value for shareholders. Ogbonna and Ebimobowei (2012), evaluated the effect of ethical accounting standards on the quality of financial reports of banks in Nigeria, they found out that ethical accounting standards affect the quality of financial reports in Nigeria.

Saeed, Shakeel and Lodhi (2013) in their study on the impacts of ethical behaviour on employee performance using SPSS regression, found that ethical guidance and ethical value have positive impact on employee’s performance. Which directly impact positively on organization’s growth. Saeidi, Saeidi and Bidi (2012) conclude that ethic contributes in performance of the business. It does not only bring profitability but also increase the customer’s loyalty, helps in retaining customer, creates goodwill for the company and utilize the resources at their maximum level. Also Onyeaghala-Obioma & Anele (2014) in their study of adherence to ethics and performance of business organizations, using Spearman Rank Order Correlation and t-Statistic. They found that there is relationship between adherence to ethics and performance of business organizations, and that this relationship was found to be significant.

Ethics can be seen as a restriction to profitability. To Bowie, 1995 (as cited by Mcmurrian and Matulich, 2006) in his study, he find out ethics and profit are inversely related. But McMurrian and Matulich, 2006 in their study, conclude that there is positive correlation between an organization’s ethical behavior and activities and the organisation’s bottom line results. Donaldson, 2003 (as cited by McMurrian and Matulich, 2006) summarized 52 research work done, examining the correlation between ethics and profit. He found out that 33 studies indicated a positive correlation between corporate ethics and profitability, 14 studies reported no effect while 5 indicated a negative relationship.

Tyler (2005) found out the primary factor shaping an employee behavior is the procedural justice that employee experiences in their workplace. His result suggested that the roots of employee policy and rule adherence lie in the procedural justice of the organization. Although the work was not empirically tested. Other studies also found that there is a significant positive relationship between corporate ethical values and organizational commitment (Hunt, Wood and Chonko, 1989), organizational dissent (Valentine, Young, Bailey, Barhoum, Labure, Glover and Isaac, 2001) external whistle blowing (Sims and Keenam, 1998) and ethical behavioural intentions (Vitell, Bakir, Pavlillo, Hidalgo, Al-khatib and Rawward, 2003) (as cited by Elias, 2005).

Importance of Business Ethics to Corporate Entities

The primary purpose of a code of ethical conduct is to provide an organisation with a clear benchmark for ethical behaviour (CCAB, 2014). Business ethics help to shape the behavior of the manager and their employee towards their stakeholders. Business ethics directly contribute to profit which is distributed to all stakeholders according to their interest in the entity. Oghene and Yomere 2008 (as cited by Onyeaghala-Obioma & Anele 2014) state that the purpose of ethics in business is to direct business men and women to abide by a code of conduct that facilitates, if not encourages, public confidence in their product and services.

International Federation of Accountants (IFAC) 2007 states that the introduction of a code of ethics help build a values-driven organisation and typically deals with an organisation’s underlying values, commitment to employees, standards for doing business, and its relationship with wider society. In addition, McMurran and Matulich, (2006) state that business ethics contribute to profitability by reducing the cost of business transaction, building a foundation of trust with stakeholders, contributing to an internal environment of successful teamwork, and maintaining social capital that is part of an organization’s market-place image. Business ethics can also be seen to have a positive impact in the reduction of fraud cases, corruption, theft and mismanagement of fund by employee. An ethically minded business entity invests less in advertising and their product and service are of high demand. Business ethics assist an organization to build its integrity and culture on a solid foundation.

Before an organization can reap these benefit of business ethics, the organization must invest heavily both in human capital development and organizational asset. Heysel (2013) opined that these investments take the form of both time and money, which pose challenges to the organization.
Methodology

The survey research design was adopted. The data for this research was collected through the administration of Business Ethics and Corporate Growth Questionnaire (BECGQ). The BECGQ was administered to 100 respondents which cut across employees of different entities and the general public. Eighty (80) of the questionnaire administered were filled and returned and analyzed. The instrument consisted of a 9 term survey questionnaire with a 5 Likert scale response options (Strongly Agree (5), Agree (4), Undecided (3) Disagree (2), and Strongly Disagree (1)). Data generated was analyzed through the use of Statistical Package for Social Sciences (SPSS) 20.0. Pearson Product Moment Correlation method was used to test the hypotheses of the study. Hypotheses were tested at 50% level of significant. The findings will be discussed and conclusion will be drawn.

Test of Statistical Hypotheses

Hypothesis 1 (H0): There is no significant relationship between employee adherence to regulation and corporate growth.

Calculation of correlation: question 1, 2, & 3 from the administered BECGQ.

<table>
<thead>
<tr>
<th>Option</th>
<th>Point (x)</th>
<th>Response (y)</th>
<th>Xy</th>
<th>X²</th>
<th>Y²</th>
</tr>
</thead>
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<tr>
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<td>22</td>
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<td>25</td>
<td>484</td>
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<td>4</td>
<td>28</td>
<td>112</td>
<td>16</td>
<td>784</td>
</tr>
<tr>
<td>U</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>D</td>
<td>2</td>
<td>13</td>
<td>26</td>
<td>4</td>
<td>169</td>
</tr>
<tr>
<td>SD</td>
<td>1</td>
<td>14</td>
<td>14</td>
<td>1</td>
<td>196</td>
</tr>
<tr>
<td>∑</td>
<td>15</td>
<td>80</td>
<td>271</td>
<td>55</td>
<td>1,642</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2015

\[ r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{\left( N \left( \sum X^2 \right) - (\sum X)^2 \right) \left( N \left( \sum Y^2 \right) - (\sum Y)^2 \right)}} \]

\[ \frac{5(271) - (15)(80)}{\sqrt{(5(55) - (15)^2)(5(1642) - (80)^2)}} \]

\[ \frac{1355 - 1,200}{\sqrt{(275 - 225)(8210 - 6400)}} \]

\[ \frac{155}{\sqrt{(50)(1810)}} \]

\[ R = 0.52 (52\%) \]

Decision: r calculation of 0.52 is slightly greater than the 0.5 level of significance, this implies that there is positive relationship between the variable (employee adherence to regulation and corporate growth). The stated null hypothesis is rejected while the alternate hypothesis that says, there is a significant relationship between employee adherence to regulation and corporate growth is accepted.
Hypothesis 2 (H02): There is no significant relationship between corporate adherence to rules and regulation and corporate growth.

Table 2: Calculation of correlation: question 4-6 of the administered BECGQ

<table>
<thead>
<tr>
<th>Option</th>
<th>Point (x)</th>
<th>Response (y)</th>
<th>Xy</th>
<th>X²</th>
<th>Y²</th>
</tr>
</thead>
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<td>12</td>
<td>60</td>
<td>25</td>
<td>144</td>
</tr>
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<td>4</td>
<td>40</td>
<td>160</td>
<td>16</td>
<td>1600</td>
</tr>
<tr>
<td>U</td>
<td>3</td>
<td>7</td>
<td>21</td>
<td>9</td>
<td>49</td>
</tr>
<tr>
<td>D</td>
<td>2</td>
<td>13</td>
<td>26</td>
<td>4</td>
<td>169</td>
</tr>
<tr>
<td>SD</td>
<td>1</td>
<td>8</td>
<td>8</td>
<td>1</td>
<td>64</td>
</tr>
<tr>
<td>E</td>
<td>15</td>
<td>80</td>
<td>275</td>
<td>55</td>
<td>2,026</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2015

\[
r = \frac{\sum Xy - \frac{\sum X \sum Y}{N}}{\sqrt{\left(\frac{\sum X^2 - (\sum X)^2}{N}\right) \cdot \left(\frac{\sum Y^2 - (\sum Y)^2}{N}\right)}}
\]

\[
= \frac{5(275) - (15)(80)}{\sqrt{(5)(55) - (15)^2} \cdot \sqrt{(5)(2026) - (80)^2}}
\]

\[
= \frac{1375 - 1,200}{\sqrt{(275) - (225) \cdot (10,130 - 6400)}}
\]

\[
= \frac{175}{\sqrt{(50) \cdot (3730)}}
\]

\[
r = 0.41 (41%)
\]

Decision: r calculated of 0.41 is less than the 0.5 level of significance. There is weak but positive relationship between the variables. Therefore the alternative hypothesis is rejected and the null hypothesis that say there is no significant relationship between corporate adherence to rules and regulations and corporation growth.

Hypothesis 3 (H03): There is no significance relationship between adoption of business ethnics and corporate growth.

Table 3: Calculation of correlation (Sr): Question 7-9 of the administered BECGQ

<table>
<thead>
<tr>
<th>Option</th>
<th>Point (x)</th>
<th>Response (y)</th>
<th>Xy</th>
<th>X²</th>
<th>Y²</th>
</tr>
</thead>
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<td>75</td>
<td>25</td>
<td>225</td>
</tr>
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<td>4</td>
<td>37</td>
<td>148</td>
<td>16</td>
<td>1,369</td>
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<td>U</td>
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<td>11</td>
<td>33</td>
<td>9</td>
<td>121</td>
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<tr>
<td>D</td>
<td>2</td>
<td>10</td>
<td>20</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>SD</td>
<td>1</td>
<td>7</td>
<td>7</td>
<td>1</td>
<td>49</td>
</tr>
<tr>
<td>E</td>
<td>15</td>
<td>80</td>
<td>283</td>
<td>55</td>
<td>1864</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2015
\[ r = \frac{\sum X \sum Y - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}} \]

\[ = \frac{5(283) - (15)(80)}{\sqrt{(5)(55) - (15)^2) - (5)(1864) - (80)^2}} \]

\[ = \frac{1415 - 1200}{\sqrt{(275) - (225) - (9,320 - 6400)}} \]

\[ = \frac{215}{\sqrt{1490}} \]

\[ r = 0.56 \quad (56\%) \]

**Decision:** The calculated value of 0.56 is greater than the 0.5 level of significance. This result implies that there is a positive relationship between adoption of business ethics and corporate growth. The null hypothesis is rejected while the alternate hypothesis, which states there is a significant relationship between adoption of business ethics and corporate growth, is accepted.

**Summary of Findings**

This study revealed that business ethics to an extent determine corporate growth as shown by the test of statistical hypotheses, employee adherence to rules and regulations, and adoption of business ethics by corporate bodies are significantly related to corporate growth. Thus, employee adherence to rules and regulations tested positive to corporate growth and adoption of business ethics also tested positive to corporate growth.

This study also revealed that corporate adherence to rules and regulations tested weak but positive relationship to corporate growth. This shows that corporate adherence to rules and regulations does not determine the level of corporate growth.

Specifically, it was related that business ethical codes of conduct guards both corporate entities and the employees in building the trust of its stakeholders and that the adoption of a good and functioning business ethical code of conduct help in addressing ethical issues confronting the business entities.

**Conclusion and Recommendation**

On the basis of the findings, this paper concludes that employee adherence to rules and regulations and the adoption of Business ethical code of conduct by an entity will enhance corporate growth and sustainability in the long run. Business ethics as earlier stated have positive impact in the reduction of fraud cases, corruption, theft and mismanagement of fund by employee.

This study also concludes that corporate adherence to rules and regulations is insignificant in relation to corporate growth, though the relationship is positive which means that if organizational structure and culture are align with the adoption of business ethical code of conduct it may lead to corporate growth. Therefore adoption of business ethics by corporate bodies will enhance corporate growth which is of interest to all stakeholders.

Finally, this study assert that business ethics help guard both corporate entities and employees in building the trust of its stakeholders and addressing ethical issues confronting business entities.

In the light of the above, the following recommendations were made: Corporate entities should ensure that their corporate structure and culture are aligned with the objective of business ethics in order to enhance performance and growth. Adoption of business ethics for the first time by corporate entities should be carried out with sincere mind and not as a means to hurt those who are not fostering the personal interest of the management to the detriment of the other stakeholders.
References


Ponemon, L., & Michaelson, C. (2000). Ethics at the Core: Perspectives - Pricewaterhouse Coopers(2), 4-9


**Appendix 1.**

Instruction
Please tick (√) the appropriate option.

**Section A: Personal Data**

1. Sex: [ ] Male [ ] Female

2. Age: [ ] 25-30 [ ] 31-40 [ ] 41- above


4. Employed by private organization [ ] Employed by public sector [ ] Self employed [ ] Applicant

**Section B: Business Ethics and Corporate Growth Questionnaire (BECGQ)**

**Employee adherence to rules and regulations and corporate growth.**

1. Business ethical code of conduct are not necessary for the smooth running of the organization's operation.
   (a) Strongly Agree (b) agree (c) Undecided (d) Disagree (e) Strongly Disagree

2. Employee adherence to rules and regulations will enhance corporate growth.
   (a) Strongly Agree (b) agree (c) Undecided (d) Disagree (e) Strongly Disagree

3. Business ethics are set of rules that guides the behaviors of employees in an organisation.
   (a) Strongly Agree (b) agree (c) Undecided (d) Disagree (e) Strongly Disagree.

**Corporate adherence to rules and regulation and corporate growth**

4. Corporate adherence to rules and regulations will not enhance corporate growth.
   (a) Strongly Agree (b) agree (c) Undecided (d) Disagree (e) Strongly Disagree

5. Adherence to rules and regulations by corporate bodies will help build the trust of its stakeholders.
   (a) Strongly Agree (b) agree (c) Undecided (d) Disagree (e) Strongly Disagree
6. Business ethics aims to guard both corporate bodies and their employees to always adhere to rules at all cost.  
(a) Strongly Agree (b) agree (c) Undecided (d) Disagree (e) Strongly Disagree

Adoption of business ethics and corporate growth.

7. Adoption of good and functioning business ethics can help to address ethical issues confronting the business entities.  
(a) Strongly Agree (b) agree (c) Undecided (d) Disagree (e) Strongly Disagree

8. Ethical codes of conduct are adopted to enhance employees and organization's relationship.  
(a) Strongly Agree (b) agree (c) Undecided (d) Disagree (e) Strongly Disagree

9. Adoption of Business ethics by organization bodies will not enhance corporate growth.  
(a) Strongly Agree (b) agree (c) Undecided (d) Disagree (e) Strongly Disagree