

# IRISH MANAGERS' PERCEPTIONS OF BUSINESS ETHICS

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Managers of corporations increasingly find themselves in quandaries over ethics (Beauchamp & Bowie 1993; Brady 1990; Maclagan 1983). In the past few years, Ireland has seen a number of business scandals entailing stock flotation deceptions at Superwood, the conflict of interest problems shown by Greencore executives, and the Goodman International Beef Tribunal. The few existing studies of Irish business managers indicate that many engage in inconsistent thinking about ethical practices. Perhaps this inconsistency explains the recent business scandals that have emerged in Ireland. However, what we know of ethics attitudes among Irish business managers is quite limited.

## Research on Business Ethics in Ireland

Murphy (1994) examined ethics in Irish businesses and noted that four factors mitigated against ethics codes: (i) Ireland's size, (ii) interpersonal business dynamics, (iii) the role of religion, and (iv) expediency. The first factor entails Ireland's modest size, location, and small market. Some believe that ethics is a luxury and survival means bending the rules. Irish businesses are believed to be in a fight for survival because of the dominance of small and medium-sized corporations in the country and because of its isolation and limited market. Therefore, many believe they cannot accommodate formal codes of ethical practice. Second is the issue of interpersonal connections. Most business managers outside of Dublin know their stakeholders personally and rely upon interpersonal understandings. The third factor is religion. Strong religious foundations may be provided by the Catholic church. Such guidance is thought to eliminate the need for applied ethics. The fourth is expediency. This view entails the belief that one should take advantage of every opportunity to profit, without caring who it hurts.

Regardless of these forces, Murphy argues for ethical corporate codes. Codes ought to be embraced by Irish management because they lead to correct actions (doing no harm). Religion is often silent about business issues. Codes can fill the void to address practical outcomes which stimulate a robust business environment as well as improve communication and managerial decision-making.

Another study of senior managers involved comparative data and a large sample of firms in the UK, Ireland and the US (Alderson & Kakabadse 1994). The researchers noted that only 47% of firms in the UK and Ireland had an identifiable code of ethics yet

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most agreed that all companies should have a code. Other apparent contradictions emerged within the cultural groups. For instance, Irish managers listed product safety, employee safety, and corporate environmental operations as their top three ethical priorities. The Irish also gave significantly higher ratings to employee safety than US or UK managers. In addition, the Irish sample placed a higher priority on business accountability to the public yet, ironically, they also gave top priority to stockholders. Finally, these same managers showed more agreement than their peers with the claim that it was alright to bluff and take advantage of situations regardless of laws or conventions.

A qualitative interview study of top Irish corporate executives by Murphy (1995) found that those working for Irish firms disdained formal ethical statements. In place of a code, Irish managers relied upon frequent communication and meetings to convey their standards. Aspects of the corporate culture and individual integrity were stressed instead. One executive stated: "... you don't need a written contract, you don't need a written set of conditions to bind you. You are bound by what you say and what you do. This goes for each person in the organization" (p.67). Interestingly, Murphy found that such managers had difficulty identifying specific ethical issues and/or were less able to discuss ethical lapses in any detail. However, those in the sample understood the necessity for managerial modeling of corporate values and realized that good ethical practice should originate at the top.

Here we pose the following questions: To what degree do Irish business managers perceive differences in the wrongness of various ethical acts? In what way are the wrongness ratings related to managers' perceptions of an act's frequency? And, to what degree are such differences predicted by a written code of ethics?

## Methods

In our study, wrongness ratings of the eleven ethical acts are rated on a three point Likert scale (not very wrong, wrong, very wrong indeed). Frequency of occurrence also utilized a three point Likert Scale which ranged from a low of only rarely, to occasionally, and very commonly. The existence of a code was rated dichotomously.

*Sample* – Our sample of 348 Irish managers was obtained from a stratified random sampling of the 1993 Golden Pages list of companies as well as the Business and Finance list of the top 1000 Irish companies. During an in-person interview with a trained ESRI professional, a representative group of Managing Directors (or their designated nominee) of private sector Irish businesses judged the degree of wrongness of eleven different common business practices. Such practices constitute the core issues found in contemporary business ethics texts and include: unfair pricing, misleading the customer on the quality of the good and/or service provided, evading taxes, selling unsafe products, manipulating market research results, discriminating among workers (on

grounds of age, sex, race), delaying payments to suppliers, accepting and/or giving backhanders, polluting the environment, trading insider information, and the staff's dishonesty with expense accounts. A pilot study pre-tested the questionnaire in December of 1993. The actual interviews took place between March and July of 1994.

*Instrument* – In a structured, in-person interview managers responded to a series of 76 questions about their company policies on career breaks, flexitime, job sharing, ethics, and retirement policies. The section of the questionnaire relevant to this paper includes eleven questions on business ethics along with nine additional queries on ethics codes and their development. Managers noted how wrong each practice happened to be and also judged the frequency of each practice.

*Descriptive Variables* – In order to understand firm characteristics within a context, interview data were collected about the company's size, sector, separateness, and Irish ownership. For instance, managers were asked directly about the goods or services the firm produced and, its number of employees. Managers were given a dichotomous choice about: whether the firm is a separate company or a subsidiary, whether the firm is majority Irish owned, and whether the firm has a formal written statement of ethical guidelines or code of practice.

*Ethical Categories* – Most of the individual ethics items in the study refer to similar contexts. For instance, accepting backhanders and expense account dishonesty can be grouped according to the unethical acts of employees. On the other hand, selling unsafe products and misleading customers involves external social responsibility. Because of this overlap, we collapsed the eleven items into three broad categories. The schema used for classification was found in Frederick, Davis and Post (1988). We made a few modifications in their scheme to create the following categories: 1) ethics involving employees or hereafter, EIE, 2) ethics involving firms, EIF, or 3) ethics involving society, EIS. The 11 ethical acts used in the ESRI survey were then matched to Frederick et al's categories after inter-rater reliability checks indicated agreements of 83%. The classifications are as follows:

<b>Ethics Involving Employees</b>	<b>Ethics Involving Firms</b>	<b>Ethics Involving Society</b>
Discrimination	Unfair Pricing	Misleading Customers
Accepting Backhanders	Delaying Payments	Evading Taxes
Expense Account Dishonesty	Trading Insider Information	Polluting the Environment
Manipulating Research		Selling Unsafe Products

*Statistical Analyses* – A series of statistical procedures are used to analyze the research questions delineated above. For instance, chi-squares assess the degree to which frequency and wrongness are related. Both t-tests and ANOVA procedures test whether the manager's scores on the degree of perceived wrongness (on the three ethical clusters) are significantly different from one another. Variable relationships within each of the three categories are analyzed with Pearson correlation coefficients for multicollinearity. Finally, the influence of ethical codes and frequency of occurrence is assessed with a multiple regression in regard each of the dependent variables of EIE, EIF and EIS (employee, firm and social ethics). High scores for various ethical acts indicate a higher ethical standard.

## Results

In the pages to follow, we describe the sample and the results of the statistical analyses conducted in order to answer each of the research questions listed above. The questions involve an examination of the wrongness of various ethical acts as well as whether codes are robust predictors of wrongness compared to frequency.

*Characteristics of ESRI Businesses* – After adjusting for missing data (9–15% across all variables), results indicate that 76% of the firms are Irish owned and nearly the same percentage (74%) are separate or independent corporations. More than half the companies (60%) were relatively small (employing less than 100 in manufacturing or less than 20 in the service sector) and 60% provided services. Nonetheless, only 22% of all firms in the entire sample had a written code of ethics or practice. Table 1 indicates the percentage of the 348 sample firms which possess the characteristics listed. Note that the Service/Manufacturing Sector is the only one which is mutually exclusive. Separate ownership refers to firms which are not subsidiaries. Tables 2 indicates the group which created each firm's code of ethics.

**Table 1: Characteristics of Firms Surveyed**

<i>Characteristic</i>	
Irish Owned	76%
Separate Ownership	74%
Employs less than 100 – Manufacturing	60%
Employs less than 20 – Services	60%
Service Sector	60%
Manufacturing Sector	40%
Existence of Code	22%
Ad-hoc Response to Dilemmas	60%

**Table 2: Code Creator**

<i>Code Creators</i>	
Board of Directors	12.0%
Head Office	13.0%
Management	12.5%
Personnel	7.5%
Others – Misc	55.0%
	100.0%

*Wrongness Ratings* – Three quarters of the items' wrongness distributions (not presented) were positively skewed. That is, most managers rated the acts identified on the list as either wrong or very wrong indeed. Given the fact that our data-gathering involved an in-person interview, one might anticipate high scores because of social desirability. That is, judgments of wrongness are likely inflated and overstated because of the interpersonal pressures in a face to face interview. However, variations between and among items and clusters are useful for understanding the ethical orientations of Irish managers.

*Frequency and Wrongness* – Nearly 80% of the businesses in this sample do not have formal ethics codes. Apparently managers rely upon other corporate dynamics for guidance in ethics. One guide would be how frequently a given act occurred. That is, in justifying particular codes of conduct, some use the excuse that everyone does it'.

We calculated cross-tabulations with a Pearson's chi-square test for each of the eleven variables (using both frequency of occurrence and wrongness). Of the eleven variables examined, four show significant associations with frequency. That is, misleading customers, discriminating among workers, delaying payments, and polluting are related to frequency of occurrence – when a code is absent. However, the acts which attained significance straddle all three of the conceptual categories. Nonetheless, no relationships between frequency and wrongness emerge when corporations have a code of ethics. This result may be due to the small number of corporations with a code but we cannot know for certain. See Tables 2 and 3 for a complete breakdown of *each item's* rating of both wrongness and frequency of occurrence as well as the overall group mean for each category.

A perusal of the means in Tables 3 and 4 indicates that delaying payments is considered least wrong yet also thought to occur most frequently. However, manipulating market research results has a similar average to delayed payments but it is one of the acts that occurs rarely. In contrast, the most wrongful acts are judged to be selling unsafe products and polluting. Unlike the previous relationship with frequency, unsafe products occurs rarely while polluting occurs commonly. In sum, the means in Tables 2 and 3 reveal that the relationships between wrongness and frequency are complicated and variable. No one trend appears to dominate the results.

**Table 3: Managers' Judgments of the Wrongness of Various Business Practices**

<i>Practice</i>	<i>Not Very Wrong</i>	<i>Wrong</i>	<i>Very Wrong Indeed</i>	<i>Mean</i>
<i>Social Ethics</i>				2.71
Polluting the Environment	0.6%	24.8%	74.6%	2.74
Mislead Customer	3.5%	22%	74.5%	2.71
Evade Taxes	5.1%	35.2%	59.7%	2.55
Unsafe Product	1.6%	12.3%	86.1%	2.85
<i>Employee Ethics</i>				2.57
Manipulate Research Results	8.1%	52.1%	39.8%	2.32
Expense Account Dishonesty	1.3%	34.5%	64.2%	2.63
Backhanders	4.1%	27.1%	68.8%	2.65
Discriminate among Workers	2.5%	30.4%	67.1%	2.65
<i>Ethics of Firms</i>				2.40
Unfair Price	8.2%	42%	49.8%	2.41
Delay Payments	14.0%	46.8%	39.2%	2.25
Trading Insider Information	2.6%	42.2%	55.2%	2.53

All row percentages sum to 100%. Column headings are scored as: Not Very Wrong = 1, Wrong = 2, Very Wrong = 3.

**Table 4: Managers' Perceptions of the Frequency of Occurrence of Practices**

<i>Practice</i>	<i>Only Rarely</i>	<i>Occasional</i>	<i>Very Commonly</i>	<i>Mean</i>
<i>Social Ethics</i>				2.04
Polluting the Environment	16.7%	49.7%	33.7%	2.17
Mislead Customer	22.5%	47.5%	30.1%	2.08
Evade Taxes	11.1%	36.8%	52.1%	2.41
Unsafe Product	55.9%	38.5%	5.6%	1.50
<i>Employee Ethics</i>				1.95
Manipulate Research Results	35.0%	50.2%	14.8%	1.80
Expense Account Dishonesty	25.1%	48.9%	26.0%	2.01
Backhanders	26.9%	43.6%	29.5%	2.03
Discriminate among Workers	25.8%	47.5%	26.8%	2.01
<i>Ethics of Firms</i>				2.26
Unfair Price	14.0%	46.5%	39.5%	2.26
Delay Payments	5.7%	24.0%	70.3%	2.65
Trading Insider Information	28.5%	54.2%	17.3%	1.88

All row percentages sum to 100%. Column headings are scored as: Rarely = 1, Occasionally = 2, Very Commonly = 3.

*Content Analyses* – A group of six masters' level students who enrolled in a Business Ethics course and were trained in ethical theory evaluated the managers' wrongness means. They examined the acts that most managers considered very wrong indeed as well as those considered least wrong and consensually agreed upon thematic differences. That is, the students posited that those business practices which might harm other persons in a direct or concrete manner were rated most wrong by managers while acts which involved the manipulation of the marketplace in a more abstract manner were least wrong. In other words, the wrongness of an act appeared contingent upon its immediate impact on others.

*Results of Cluster Analyses* – Prior to testing the relationship between an ethics code and wrongness, we examine the degree of intercorrelation among variables in each separate ethics cluster. The results of the correlation analyses indicate a moderately high relation between being Irish owned and an independent firm (the level is approximately .60). All other relationships are moderate or low. The correlations, however, function in a descriptive way which means that the majority of the sample is composed of Irish-owned companies which tend to be independent. This relationship, however, is weak enough to avoid the conclusion that one factor can be replaced by the other.

Additional means tests between the clusters in Table 2 indicate that each is statistically independent and significantly different from the others. ANOVA procedures analyzing all three clusters simultaneously verified each one's independence with a Bonferroni test. This test examines where the differences in means occur when more than two groups are examined. Note that the mean for Ethics involving Firms (EIF) is significantly lower than any other cluster. That is, the acts of unfair pricing, delayed payments and trading insider information are considered least wrong yet as Table 3 indicates, these EIF acts occur most frequently. On the other hand, the cluster comprising Ethics involving Society (EIS) is rated as most wrong. Finally, the EIE acts and frequencies are more often in the intermediate range.

*Regression Analyses* – In order to test for the influence of an ethics code and frequency of occurrence, we analyzed each of the ethics clusters (dependent variables) using a simple multiple regression in which frequency of occurrence and an ethics code function as independent variables. The regression analysis of managers' scores on acts considered least wrong, EIF (unfair pricing, delaying payments, and insider trading), indicates that a business code of ethics can predict high scores but only in the EIF domain. Frequency had no predictive power in any of the domains. Detailed statistical data can be obtained from Stohs & Brannick (1996, under review).

## **Interpretation**

The foregoing analyses provides us with an important perspective on Irish business ethics. Ratings on individual ethics items imply that Irish managers are more concerned

about ethical acts with the capacity to directly harm others than about acts of a more abstract nature. For instance, the means in Table 3 suggest that Irish managers may be focused on preventing harm to others in relation to customer and environmental factors. Comparisons with other studies show that three trends exist. First, Alderson and Kakabadse's study and ours both find that product safety is the managers' most important ethical issue. Second, managers in both list environmental and customer relations among the top three to five items of most concern. Third, managers rank issues relating to product pricing much lower on their list of important issues.

The analyses of frequency and wrongness ratings indicates that in some cases, the perceived frequency of occurrence of an act has a relationship with judgments of wrongness. But this was true only in those corporations without a formal ethics code. Thus, perceptions of wrongness depend on norms for frequency when corporate policy is absent. The managers' wrongness judgments are probably influenced by social trends and their own unique assessments of the informal corporate norms. Like previous studies (Alderson & Kakabadse 1994; Murphy 1994, 1995), our data also find few Irish corporations with formal codes.

### **Influence of Codes**

The existence of a corporate code compels managers only in relation to the ethics issues involving firms, EIF. That is, when managers confront issues directly affecting pricing, insider trading or delayed payments, a code is part of what guides managerial thinking about ethical behavior. In the EIF domain, therefore, an ethics code confirms Trevino's thesis that codes function as corporate roadmaps.

### **Conclusions**

In this study slightly more than 20% of the Irish-owned businesses had formal codes. Furthermore, Table 1 showed us that such ethical codes were written in relation to company needs or based upon professional or industrial standards for behaviour. Ireland is not alone in her reluctance to embrace codes. Other EC corporations are also less inclined to use business codes than those in North America. For example, Robertson and Schlegelmilch (1993) studied UK and US managers and found that significantly more UK companies had no ethical guidelines or no intention of developing an ethics code. However, this relatively small use of codes is troublesome because it stands in stark contrast to corporate practices elsewhere, e.g., 90% of US firms have codes; 90% of larger corporations develop such codes (Murphy 1995). Such an attitude may indicate a firm's lack of preparation for competition in an international business environment and could lead to higher legal fees, more scandals, and less cooperation from other stakeholders.

Those few managers in this study whose corporations developed a code of values demonstrated a significantly greater concern for ethics between and among firms (EIF). Like other businesses around the world, the Irish codes are developed by those at the top

(Board of Directors, Head Office, Legal Department) and are focused on preventing harm to the company. The codes embrace a more comprehensive ethics standard which sets a tone and lends credence to a corporate image (Murphy 1995). Further, actions by the Board of Directors and union officials can spell out in detail the rewards and consequences of particular actions so that they function as guides to behavior (Trevino & Nelson 1995). This is especially pertinent to the European context.

### **Ethical Codes**

Since businesses increasingly find themselves confronting ethical dilemmas, many are turning to ethical codes as a safeguard. In particular, codes address the company's position on a range of practices, help orient new employees, and also encourage a focus on moral actions. Codes can direct workers or members of a profession to resolve specific issues in a particular manner, e.g., issues around gift giving and the company's stance on bribery. Further, they require the firm to think through their mission and the obligations they have to each other, clients, and society as a whole. And, once a code develops it serves as a basis for further discussion and clarification. Finally, codes can reassure those in the broader community of a corporation's values and standards (Brady 1990; Trevino and Nelson 1995).

As Alderson and Kakabadse (1994) note, top management in Ireland play an especially critical role in setting the tone for ethics in an organisation (e.g., moreso than in the U.S.). Trevino's (1986, 1990) research indicates that any given organisation develops an ethics culture through a complex interplay of formal and informal systems. Both systems in an organisations' culture can and do influence the ethical behaviour of its members (Beyer & Trice 1987; Dean 1993). However, studies also indicate that an organisation's culture has a more powerful influence on the behaviour of its members than individual predispositions toward ethical behavior (Derry 1987; Derry & Green 1989).

We need to know about Irish managers' ethical orientations. Murphy's (1995) interviews with eight Irish Managing Directors reveals that those without codes believe formal statements were not the way to inculcate ethical values in employees. Individual integrity and corporate traditions which reinforced honesty are preferred to a formal ethics statement. In Table 1a, we found that those Irish businesses without codes address problems by reacting when the ethical issues arise. This approach involves a risk, though. That is, when no corporate code exists, our data show that managers sometimes use frequency norms for making judgments about the wrongness of various acts, but the relationships between wrongness and frequency shown in Tables 2 and 3 are uncertain and variable.

The concerns discussed above cohere with standard thinking in the field. That is, writers on the topic of business ethics suggest that firms without a formal code of ethics will make decisions that are arbitrary and inconsistent (Dean 1993; Derry 1987; Trevino

& Nelson 1995). Perhaps Irish management needs to devise panels of managerial personnel to create a more coherent and all-encompassing set of ethics standards which address both concrete and abstract issues. In these cases, an advisory committee could be created to determine how dilemmas will be addressed. The long-term result of such a committee's work, in all likelihood, will be a formal code of standards guiding several aspects of applied behaviour.

We also need to understand why Ethics Involving Firms (EIF) is the only cluster in our study that is influenced by an ethics code. Murphy's (1995) study of top managers finds that only 20% of firms' mission statements mention the concept of business integrity. One possibility is that EIS (society) and EIE (employees) ethics issues are less directly involved in good business practice whereas EIF focuses upon them in a concrete way. Content analyses indicates that EIS has a more global focus while EIE focuses on intra-company business dynamics. An examination of the actual company practices, though, should clarify whether they address business ethics issues specifically.

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