

The Effectiveness of Ethics Program among Malaysian Companies

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Abstract. Intensifying number of companies collapses are alarming in the recent years. Therefore, proper code of conduct and ethics in the workplace is vital to curb this from progressing. Questionnaires were distributed to a sample of companies/organizations in the Klang Valley which asked on the perception of employees towards companies/organizations code of conduct and ethics program. Factor analysis is used to reduce a large number of related variables to a more manageable number. The statistics explicate that out of 38 variables used in this study, only 35 were found to be significant and can be grouped into 8 common factors which are ethical practices, unethical practices, perception on ethics practices, ethics noncompliance, ethics and company's size, ignoring ethical standards, ethics compliance and obey/follow orders. In addition all the factors are reliable according to their scale item even though there are factors that have low inter item correlation. The aim of this research was to investigate what are the factors related to the respondents' perception on the ethics program and practices. This research can conclude that companies do have sufficient ethics standards and ethics program. Nevertheless, companies should particularly improve in making sure that employees fully be familiar with the ethics standards and ethics program. This implies that companies need to have effective training and seminars. Consequently, future study should look into the ethics standards and ethics program itself to ensure it has been carried out effectively.

Keywords: ethics program, employees, factor analysis.

1. Introduction

The increasing number of companies' in the recent years such as Enron, World com and Subeam collapses has triggered the need to understand why it happened. The blame falls on the poor economic performance and corporate fraud or misconduct. The later reason is the most alarming and threatening the economy as well as social stability of a country. It is believed that the major contributor to fraud activities is poor ethical values among company's employees. This has forced companies to have proper code of conduct and ethic programs to ensure that ethical employees are important to ensure the success of the company. Therefore, this study is carried out to examine factors related to the employees' perception on the ethics program or code of conduct in the companies that they are working with.

2. Literature Review

Ethics can be defines as a set of moral principles or values (Arens et al., 2007). Ethics is one's personal believe of what is right and what is wrong (Garrett and Klonoski, 1990, Ferrell and Fraedrich, 1994) and it often refers to the generally accepted behaviour or norm (Griffin, 2005). In addition, Ruin J. E. (2001) indicates that it is important to have a sustainable ethical management and to achieve this organization needs to have these five elements:

- Clear corporate culture that encourages responsible behaviour.
- Specific policy guidance on difficult issues.
- Developing managerial awareness and competence through ethics training.

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- Top management commitment to nurture the corporate culture.
- Staffs support to assist line managers on an internal consulting basis.

In developing a company's ethics culture, the company (directors, owners and senior management) and employees need to understand that they have to take into consideration not just the shareholders' interest but the stakeholders' interest as well and decision should be made with an appropriate consideration of ethical values. Trevino et al. (1999) carried out study on the effectiveness of organization's ethical programs in the United States. They found out that ethical leadership by executives and supervisor, reward systems to incorporate ethical considerations, perceived fairness, fair treatment of employees and open discussion of ethics in the organization are the most influential elements in the study. In another study by Murphy (1989) found that an effective codes is the embodiment of an organization's values that represent the major organizational structure in which to implement ethical policy and to signal and communicate behavioural expectations and culture as well as to provide strategic and legal positioning for the organization.

3. Methodology

A survey method was used to collect the data in order to answer the research question. . The questionnaire was adapted from D'Aquila (2004) and the United States Government Ethical Survey. It has also undergone a sufficient pilot test that resulted in minor changes of the questionnaire. A convenient random sampling method was used in obtaining the data. One thousand questionnaires were distributed to 20 public companies within the Klang Valley. The public companies are chosen because it is subject to public scrutiny; therefore ethics is presumably an important aspect for the company. Only 200 questionnaires are returned and only 142 (71%) questionnaires were usable. The data gathered from the questionnaire were later analyzed using Statistical Package for Social Studies (SPSS) 15.5. This study examined 38 variables, therefore, factor analysis are employed to provide more meaningful findings.

4. Findings and Discussion

4.1. Assumptions

The first step in factor analysis is to test a series of statistical assumptions were met after the data was collected and tabulated in order to ensure the appropriateness of the data for factor analysis. The statistical assumptions are:

- *Prior to the performing the factor analysis, the suitability of data was assessed. Inspection of the correlation matrix* revealed that more than half of the correlations were greater than .30 as recommended by Hair et al. (1998), therefore, the data is considered appropriate for factor analysis.
- *Bartlett's Test of Sphericity* - Bartlett's Test of Sphericity examines whether the correlation matrix comes from a population of variables that are independent. In this study, the test value for Bartlett's Test of Sphericity is 3388.636 and level of significance was low at 0.000, which means that the data set is appropriate for factor analysis. Pallant (2007) indicates Bartlette's Test of Sphericity is statistically significant at $p < .05$.
- *Kaiser – Oeyor – Olkin Measure of Sample Adequacy, MSA* - The MSA index ranges from 0 to 1.0, in this data set, the MSA index was 0.865. According to Pallant (2006) and Pallant (2007), this value indicates as minimum value for a good factor analysis.

Based on the three assumptions, is can be said that factor analysis is appropriate to be carried out for this study.

4.2. Factor Analysis Results

The assessment of statistical assumption tests revealed that the data set is appropriate for a factor analysis; consequently principle component factor analysis was conducted on all of the items that were compiled from the information gathered from questionnaires.

- Latent Root Criterion

Latent root criterion is the most common technique used to examine numbers of factor extracted. Latent root criterion considers all factors that have eigenvalues greater than 1 as significant (Hair et al., 1998). Results of the latent root criterion indicated that the 38 items submitted for factor analysis should be

extracted to form eight dimensions. These eight dimensions explained 70.82 percent of the variation in the data.

- Scree Test Criterion

By laying a straight edge across the bottom portion of the roots, there are eight factors before the curve becomes approximately a straight line. Figure 1 graphically displays the Scree plot for the data set and the eigenvalues for each factor. Therefore, this indicates that the extraction of eight dimensions is appropriate for this analysis.

Following is the scree plot.

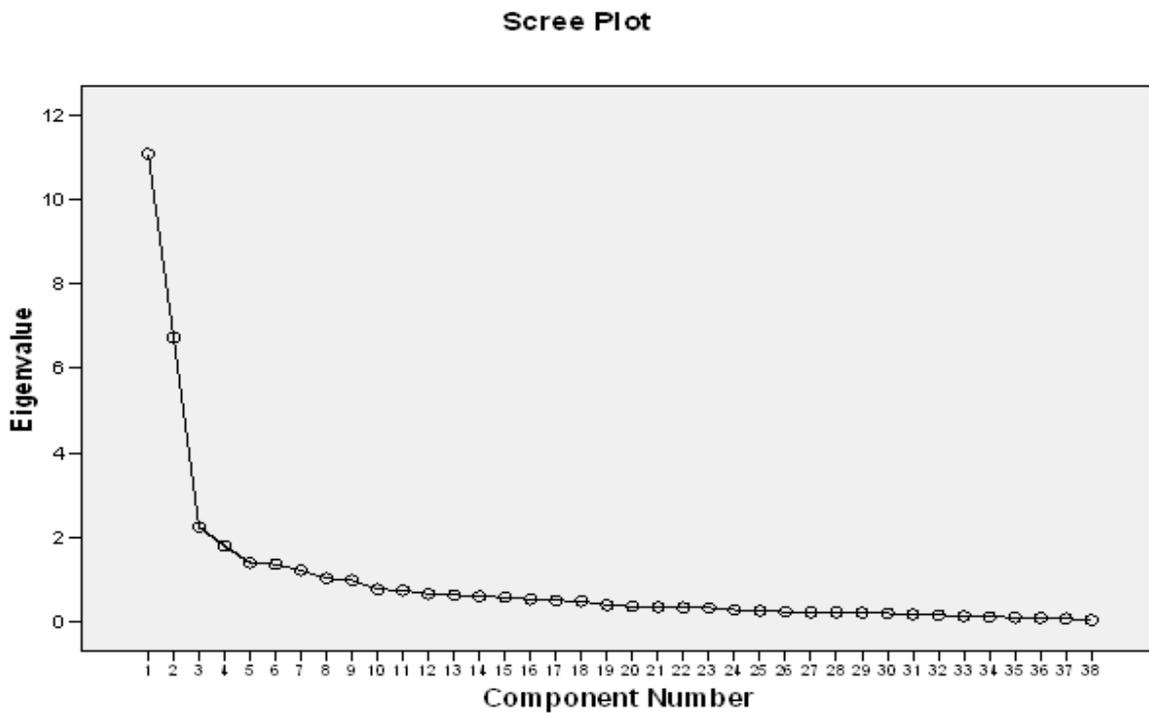


Fig.1. The scree plot

- Factor Rotation

The selection of the final factors involves interpreting the computed factor matrix (Hair et al., 1998). In this study, the initial inspection of the unrotated factor matrix revealed that 38 items highly loaded on a single factor. The matrix did not have a meaningful pattern, and in order to reduce ambiguity, an orthogonal rotation (VARIMAX) and an oblique rotation (OBLIMIN) were conducted. After factor rotation, both the VARIMAX and OBLIMIN rotations demonstrated similar factor loadings for all the variables. Therefore, the final factorial structure was based on the VARIMAX rotation method as the VARIMAX considered the factors as independent (Hair et al., 1998).

- Interpretation Factor analysis

Hair et al. (2006 p.128) recommended that the factor loading greater than $\pm .50$ are considered practically significant. However, Aladwani and Palvia (2002) highlighted that there are no accepted absolute standards for the cut offs; the choice is based on judgement, purpose of study, and prior study. The square loading is the amount of the variable's total variance explained by the factor because a factor loading is the correlation of the variable and the factor (Hair et al., 2006). In addition, a 0.50 loading implies that 25 per cent of the variance is explained by the factor (Hair et al., 2006). In this study, therefore, VARIMAX considered 35 out of 38 statements are significant with all the items had one loading on one factor. Each factor was subsequently renamed in accordance to the construct that they represented. According to Hair et al. (2006, p.131), statements with higher loadings have a greater influence on the name selected to represent a factor, and the name assign to the factor should accurately reflects the statements loading on that factor.

The eight factors were renamed as follows:

- Factor 1 - Ethical practices: This factor groups all the significant statements that relates to company/organization's ethical practices.
- Factor 2 - Unethical practices: This factor group all the significant statements that relates to unethical acts commit by employees in the company/organization.
- Factor 3 - Perception on ethics practices: This factor combined respondents' perception on two statements that are supervisors not paying attention to ethics and usefulness of the ethics guidelines issued by the industry.
- Factor 4 - Non-compliance of ethics: This factor indicates respondents' perceptions on being unethical during recession period.
- Factor 5 - Ethics and company's size: This factor indicates respondents' perception on ethics compliance with company/organization's size and employees' feelings in delivering bad news to supervisors.
- Factor 6 - Ignoring ethical standards: This factor indicates respondents' perception on company's leaders that ignore ethics in order to get the job done and when they have to deals with senior staffs unethical practices.
- Factor 7 - Ethics compliance: This factor indicates respondents' perception on company's compliance towards their own ethics program and guidelines.
- Factor 8 - Obey/follow orders: This factor indicates respondents' perception that employees are expected to carry out instructions as they were told to do.

The three statements that were found not significant are:

- Employees in this organization feel comfortable talking about ethics. (statement 5, section D)
- Organization employees improperly accepting payment for doing their organization jobs from people outside the organization. (statement 32, section E)

4.3. Factor Analysis Reliability Test

After determine the factor contribute to the respondent perception on the effectiveness of the ethics program, a reliability test is carried out. The reliability test is an assessment of the degree of consistency between multiple measurements of a variable. In short, reliability refers to the degree to which the items combined together. Cronbanch's Alpha Coefficient being the most widely used measure for reliability coefficient. The eight factors were subjected to reliability test, except for the Factor 4 and Factor 8 that represented only one item. The factors extracted and their Cronbach's Alpha Coefficient is summaries in Table 1.

According to Table 1, it is clearly seen that only four factors namely 1,2,3 and 4 had a Cronbach's Coefficient Alpha greater than 0.60 as suggested by Pallant (2007) for exploratory research, while the rest were not. However, it is common to find quite low Cronbach values because Cronbach's Alpha Coefficient is quite sensitive to the number of items in the scale (e.g. scales with fewer than ten items). In case of low Cronbach Alpha values, Pallant (2006) recommended it may be appropriate to report the mean inter-item correlation for the items. In this case, the mean inter-item correlation for Factor 5 and 6 are reported as part for reliability test greater than 0.20. Briggs and Cheek (1986) recommended an optimal range for the inter-item correlation of 0.20 to 0.40. As suggested by Pallant (2006, p.98), if the Cronbach's Alpha Coefficient value and mean inter-item correlation were low as recommended, researcher need to consider removing the items. Therefore, for this study, researcher has decided to use all the items which statistically extracted for factor analysis and support by mean.

Following is the reliability of scales for factor analysis items.

Factor	1	2	3	4	5	6	7	8
Cronbach Coefficient Alpha	0.929	0.927	0.780	-	0.020	0.564	0.749	-

Table 1: Reliability of Scales for Factor Analysis Items.

5. Conclusion

The inferential statistics concludes that out of 38 variables used in this study, only 35 were found to be significant and can be grouped into eight common factors which are ethical practices, unethical practices, perception on ethics practices, ethics noncompliance, ethics and company's size, ignoring ethical standards, ethics compliance and obey/follow orders. In addition all the factors are reliable according to their scale item even though there are factor that have low inter item correlation.

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