

# PONAŠANJE I STAVOVI HRVATSKIH ZAPOSLENIKA PREMA ETIČKIM NORMAMA POSLOVANJA

## CROATIAN EMPLOYEES' BEHAVIOR AND ATTITUDES WITH RESPECT TO ETHICAL NORMS FOR BUSINESS PRACTICES

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### SAŽETAK

Etičke norme poslovanja razlikuju se među zemljama svojim intenzitetom i raznovrsnošću, a razumijevanje etičkih dvojbi posebice je važno za menadžere međunarodnih poduzeća koji trebaju voditi podružnice u tranzicijskim zemljama. Cilj je rada osigurati što bolje razumijevanje ponašanja i stavova hrvatskih zaposlenika u vezi s poslovnom etikom. Istražena su četiri područja vezana uz etiku: (1) generalni stavovi o etičkim pitanjima, (2) manipulacija informacijama, (3) ekološka pitanja i (4) pravna pitanja. Ključno pitanje jest mogu li se zaposlenici grupirati ovisno o ekonomskim i demografskim obilježjima te načinu ponašanja i sustavu vrijednosti. Bolje poznavanje etičnosti ponašanja različitih skupina zaposlenika može biti korisno menadžerima i kreatorima politika kako bi se osnažila etičnost ponašanja među manje osjetljivim skupinama. Rezultati

### ABSTRACT

Ethical norms for business practices differ by intensity and variety across countries so managers from multinational corporations (MNCs) entering transitional economies must be able to staff subsidiaries understanding this dilemma. The aim of this article is to get a better understanding of workers' behavior and attitudes with respect to business ethics in Croatia. We explored four ethics issues: (1) attitude to ethical issues in general, (2) information manipulation, (3) environmental issues and (4) law issues. The question we pose is: can workers be placed into meaningful groups by consideration of the variation in a number of economic, demographic and behavioral/attitudinal traits? Improved knowledge of ethical behavior of different groups of workers should be useful to managers and policy makers who want to encourage ethical behav-

istraživanja mogu biti korisni pri oblikovanju politike na državnoj razini, ali i menadžerima koji smatraju kako neosjetljivost prema etičkim pitanjima može djelovati na poslovne rezultate.

ior among those segments of population where it is currently rare. Results could be useful both to policy makers at the government level, and to the managers who might be worried that a low sensitivity to ethical issues could influence their firms' performance.

## 1. INTRODUCTION

The global economy has created a new competitive landscape – one in which events change constantly and unpredictably.<sup>1</sup> Corporations operating in a variety of national environments are faced with bewildering differences of work ethics and specificities that make managing in a multinational context especially complex.<sup>2</sup> Whereas the cultural convergence perspective asserts that global economic integration and modernization forces have resulted in a greater homogeneity of values and behaviors across nations, the cultural divergence perspective contends that societies, nevertheless, retain their unique differences.<sup>3</sup> Furthermore, the cultural crossvergence perspective proposes that new and unique patterns emerge, combining some of the unique culture specific patterns with the cultural homogeneity at a global level.<sup>4</sup> At this point, it is unclear which pattern (convergence, divergence or crossvergence) has occurred with respect to workers' use of upward influence.

The increasing complexity and uncertainty in which MNCs operate creates unique situations for MNCs in organizational, co-ordination and managerial issues.<sup>5</sup> A review of the literature on human resource management (HRM) in MNCs reveals a number of key themes which dominate the current research agenda in the field.<sup>6</sup> The MNC is viewed as the vehicle by which dominant HR policies and practices are transported across national boundaries and our light on the ethics in transition countries could be the starting point for MNCs to consider in their entry in a new country. In this regard we will point to the main streams of research and provide key citations for those who wish to explore the debate more fully. Ethical norms for business practices differ by their intensity and variety across countries so managers entering transitional economies must be able to staff subsidiaries understanding this dilemma.

## 2. LITERATURE REVIEW

Several researchers have suggested a formulation of ethical programs (or of aspects inherent in them) that

are country-specific, based upon religion/morality<sup>7</sup> or based upon Hofstede's<sup>8</sup> cultural determinants<sup>9</sup> mode of entry and cross-cultural comparison,<sup>10</sup> auditor independence,<sup>11</sup> gender influence<sup>12</sup> or marketing influence.<sup>13</sup> Thus, the realm of current organizational theory on global ethics has been subjected to validation that is relative to the social context of both the managers' home country and the traditions of the international management field. Bartlett et al.<sup>14</sup> call for the need for organizations to maintain a dynamic balance between globalization (implementing globally standard practices) and localization (adapting practices to account for the host environment) if they are to become truly transnational. As firms go through the evolution from domestic, international, multinational and then towards a global orientation, ethics programs will most likely also require reevaluation and adjustment.

Finally, the starting point of the present study is increasing interest in international and comparative studies of ethics in a whole range of countries. The aim is to get a better understanding of workers' behavior and attitudes with respect to business ethics in a transition country such as Croatia. It is of particular interest to characterize variation within the population with respect to a number of economic, demographic and behavioral/attitudinal traits. Improved knowledge of ethical behavior of different groups of workers should be useful to managers and policy makers who want to encourage ethical behavior among those segments of population where it is currently rare.

### 2.1. Transitional Economies

This research will focus on Croatia as one of the transitional and emerging economies, as they have become increasingly important to MNC operations. Transitional economies are characterized by highly uncertain and dynamic market conditions. Central and Eastern European (CEE) countries have embarked on a transition from centrally-planned to market economies, many have included the requirement to implement a panoply of laws and codes of ethics to facilitate the operationalization of business transparency and efficiency. As such, the transitional economy context offers a

unique opportunity to extend our understanding of global ethics. The importance of business ethics and ethical management is exacerbated as firms entering the transitional marketplace will closely coordinate and adapt to local conditions, which are challenging due to the complex regulatory, normative and cognitive components of the environment. The Ivanova<sup>15</sup> case raises a moral dilemma between helping entrepreneurs and avoiding illegal operations while reconsidering the criteria of ethical decision-making in an unfamiliar business environment. In that context an emerging economy can be defined as a country that has a high pace of development and a government which encourages economic liberalization and the adoption of free markets. This paper provides an original field study in the emerging market and gives an opportunity to consider ethical issues in the transition economy. This paper empirically and theoretically explores business ethics and its value to MNCs in this type of dynamic economies. As suggested, transitional economies are an ideal setting for exploration of these phenomena due to local firms' lack of business acumen; MNCs entering these markets will be required to share knowledge for mutual gain.<sup>16</sup> Dowling and Welch<sup>17</sup> identify several significant differences between managing HR in an international context as opposed to a domestic one. Fisher<sup>18</sup> concluded that the surface approach to business ethics identifies the promotion of self-interest as the primary motivation for doing the right things.

## 2.2. Corporate social responsibility

Corporate social responsibility has been conceptualized as a pyramid constituting four kinds of responsibility that must be considered simultaneously: economic, legal, ethical and philanthropic.<sup>19</sup> Economic responsibilities refer to a business's primary function as a producer of goods and services that consumers need and want while making an acceptable profit. This responsibility is considered to be primary because without financial availability the other responsibilities become a moot issue. In addition to its economic responsibilities, the business is expected to carry out its work in accordance with the law and government

regulations. Johnson and Johnson<sup>20</sup> developed "their company credo" in 1943 and since then, it has guided the organization's activities. As we assumed, the corporate social responsibility has a strong influence on managerial behaviors.

### 2.2.1. The Influence of Values on Managerial Behavior

As defined by Rokeach,<sup>21</sup> "A value is an enduring belief that a specific mode of conduct is personally or socially preferable to an opposite or converse mode of conduct." As such, personal values systems are predictive of different attitudes and behaviors.<sup>22</sup> In this study of European managerial values we utilize the Schwartz values model,<sup>23</sup> which identifies ten universally recognized values. In Schwartz's circumplex model, these ten universal values are aligned into two bipolar value dimensions, consisting of the values of openness to change, conservation, self-enhancement, and self-transcendence. The quest for self-direction and stimulation relates to the openness to change whereas conformity, security and tradition relate to conservation. The openness to change indicates a propensity to follow one's emotions and intellectual development even if results are uncertain. In contrast, conservation indicates a propensity to protect the *status quo* in relations with others and with institutions. The quest for achievement, hedonism and power relate to self-enhancement whereas benevolence and universalism relate to self-transcendence. Self-enhancement indicates a propensity to promote one's own interests even at the expense of others whereas self-transcendence indicates a propensity to promote the well-being of others (friends or not) and nature. Consistent with previous cross-cultural values research, using the Schwartz value typology,<sup>24</sup> our investigation is a fine-grained analysis of cultural value characteristics in terms of these four higher-order value dimensions.

The law guiding business practice can be viewed as a fundamental precept of the free enterprise system, and as coexisting with economic responsibilities.<sup>25</sup> Obviously, not every societal obligation can be codified

into law. Therefore, ethical responsibilities encompass the more general responsibility to do what is right or to avoid harm. The first step in a broadening corporate social responsibility is to create ethical atmosphere within the corporation. Various organizations have added "ethical" to their list of corporate values. The majority of the existing research on ethics is devoted to examining the effects of individual characteristics on attitudes toward ethics.<sup>26</sup> These include such attributes as gender, age, employment experience, industry and nationality.<sup>27</sup>

We developed the following hypotheses to test as a result of literature review:

**H1: Employees are sensitive to ethical issues.**

**H2: Employees are sensitive to information manipulation.**

**H3: Employees are sensitive to environmental issues.**

**H4: Employees are sensitive to law (legal) issues.**

Before addressing the results of this empirical research on business ethics behavior and attitudes, one must first address the fundamental difference between social responsibility and ethics. Social or corporate responsibility relates to the broadening of organizational accountability, particularly in relation to the immediate operating environment; ethics pertains to individual, value-guided behavior.

With everything from insider trading to employee theft on the rise, it is no wonder that businesses are beginning to focus on the impact of ethical workers. But along with this new focus comes a rather wide "gray area". Managers and/or workers are frequently forced to decide on the issues where there are arguments on both sides – a problem that makes ethical decision-making very difficult. A number of researchers<sup>28</sup> have concluded that there is little consistency in ethical perceptions of different situations; a person cannot be labeled "unethical" in an overall sense; each circumstance should be examined separately. The acceptance of unethical behavior in one situation cannot be used as an indication of likely acceptance of unethical behavior in another, nor can it be taken as a measure of overall agreement to unethical behavior. As potentially unethical situations are perceived

independently, supervising management should not evaluate or prejudge the overall ethical standards of employees on the basis of isolated incidents.

The administration of questionnaires indicating the level of agreement or disagreement to potentially unethical situations could alert managers to focus attention on and investigate controls in certain areas.<sup>29</sup>

### 3. DATA AND METHODOLOGY

The demographic and organizational characteristics of participants are presented in tables. Data were collected from 2002 to 2004 by Dabic as a member of the University Fellows Research Consortium, which is comprised of the faculty from various countries. For each country, the survey questionnaire was translated into the language of the country and then independently back-translated into English by a second person. Differences in the two translations were resolved by the two translators and if necessary, with a third bilingual person. In completing the survey questionnaire, participants were informed that it was a cross-cultural study, with no right or wrong answers and that only their opinions mattered; furthermore, they were assured of the anonymity and confidentiality of their responses. This study makes use of a set of data collected in 2003. The population from whom the data were collected comprised firms in various parts of Croatia listed in the databases of Croatian firms. Our research explores the linkage between different groups of managers in relation to their ethics behavior and attitudes. A postal survey was carried out on 1200 firms, selected at random from this population. The questionnaire consisted of 30 questions in total, some eliciting factual information and others asking about behavior and attitudes. The intention was to obtain around 300 responses, based on an anticipated response rate of at least 25 per cent. In fact, there were 298 responses, meaning that the response rate was 24.8 per cent. There were 6 questions on factual information (demographics of respondents and firms, in Table 1): age, gender, education, position, years at work and size of the firm. Participants rated the importance of questionnaire items on a 9-point Likert-type scale, where -1 = opposed to my values, 0

= not important, 3 = important, and 7 = of supreme importance. The scale reliabilities (Cronbach alpha) for the four value dimensions were at acceptable levels for this study. Thus, a lower attribute indicates a lower level of agreement, and higher attribute means a higher level of agreement. It can also be deducted

from Table 2 that approximately 48 per cent of the respondents were male and 52 per cent female. The review of demographic characteristics with more details is given in Table 1. The statements for each group of questions, their mean value and standard deviations are listed in Tables 2 to 5.

**Table 1:** Employee and firm's demographics

Attribute	Possible values	Percentage (%)	Mean value	Standard deviation
<b>Age</b>	Numeric	-	37.73	9.88
<b>Gender</b>	1 = male	47.98	1.52	0.50
	2 = female	52.01		
<b>Education</b>	1 – Unskilled worker	0.34	3.77	0.63
	2 – Skilled worker	1.02		
	3 – Secondary school	28.23		
	4 – Undergraduate school	62.59		
	5 – Graduate school	7.14		
	6 – Ph.D.	0.68		
<b>Position</b>	1 - professional /supervisory	50.36	2.06	1.21
	2 – first level management	12.59		
	3 – middle level	17.63		
	4 – senior executive	19.42		
<b>Years at work</b>	Numeric	-	15.14	9.29
<b>Firm size</b>	1 – Small (<100 employees)	43.88	1.75	0.76
	2 – Medium-sized (101-1000 employees)	36.69		
	3 – Large (>1000 employees)	19.42		

Source: Author

The first six questions concern factual information on employees and their firm. They are listed in Table 2, together with possible responses. The mean value and standard deviation for each attribute are also listed. However, one should be cautious in their interpretation because some of the variables are numeric and others are ordinal. Therefore, we treated ordinal scales as cardinal but they still function as useful measures of a tendency towards the top or bottom of the scale. For example, a mean value of 3.77 for the education attribute means that there were more respondents from higher than lower education groups. The other 24 questions refer to four ethics issues: (1) attitude to

ethical issues in general, (2) information manipulation, (3) environmental issues and (4) law issues. Concrete questions are presented later on in the paper.

### 3.1. Respondents' attitudes to ethical issues

The statements eliciting a level of agreement or disagreement on ethical issues in general are presented in Table 2. The possible responses to these statements were listed on a Likert scale, ranging from 1 to 9,

coded as 1 – completely agree, and 9 – completely disagree. Thus, a lower attribute indicates a higher level of agreement, and a higher attribute means a higher level of disagreement. The overall conclusion is a more or less moderate positive position towards the importance of conducting these ethical activities at the organizational unit level.

Mean response values indicate a high consensus that the organizational unit level should perform the activi-

ties such as training employees to operate according to the legal standards (2.32), actively contribute to the community welfare (2.84) and help in resolving social problems (3.03). A slightly lower agreement is present for the following organizational unit level activities, including their role in society that goes beyond profit generation (3.37), commitment to very specific ethical principles (3.43) and a more important position of ethical principles in comparison to profit (3.77).

**Table 2:** Mean response values for questions and statements eliciting level of agreement on ethical issues in general

Question/statement	Mean level of agreement or disagreement	Standard deviation
Give priority to ethical principles over economic benefits	3.77	1.91
Be committed to well-defined ethics principles	3.43	1.77
Contribute actively to the welfare of our community	2.84	1.73
Help solve social problems	3.03	1.78
A role in our society that goes beyond the mere generation of profits	3.37	1.98
Train their employees to act within the standards defined by the law	2.32	1.51
Average score for attitude to ethical issues in general	3.13	1.06

Source: Author

The popular understanding of ethical concern is a narrow view of personal behavior related to lying, stealing and cheating at the most obvious and blatant level. This view ignores the subtlety of ethics in business settings, including information manipulation, environmental issues, law issues etc. The search for general answers is unrealistic since each situation is in a sense unique and requires a contextual approach while the objective of this research is to create some general conclusions about the Croatian business context.

Levels of agreement on information manipulation strategy at the individual level (not organizational unit level) are presented in Table 3. As a general conclusion, they present a positive attitude towards rejection of

information manipulation strategies at the individual level. Respondents are not in favor of listening in on other candidates in order to gain information about promotion or using destructive information meant for blackmailing persons who are in a position to influence promotion within organizations. Furthermore, respondents are resolutely against the blackmailing strategy to reveal important information if their demands are unfulfilled. However, a strategy based on retaining information so as to present a particular person in a negative light is somewhat acceptable.

**Table 3:** Mean response values for questions and statements eliciting level of agreement on information manipulation

Question/statement	Mean level of agreement or disagreement	Standard deviation
Do not use detrimental information to blackmail a person who is in a position to help them get ahead in the organization	2.65	1.96
Do not withhold information to make someone else look bad	3.55	2.09
Do not put a listening device, such as a tape recorder, in the office of a competitor for a promotion to get information about this person	2.17	1.76
Do not threaten to give valuable company information to someone outside the organization if their demands are not met	2.40	1.87
Average score for information manipulation	2.69	1.51

Source: Author

**Table 4:** Mean response values for questions and statements eliciting level of agreement on environmental issues

Question/statement	Mean level of agreement or disagreement	Standard deviation
Prevent environmental degradation caused by the pollution and depletion of natural resources	2.40	1.77
Adopt formal programs to minimize the harmful impact of organizational activities on the environment	2.34	1.55
Minimize the environmental impact of all organizational activities	3.11	1.91
Devote resources to environmental protection even when economic profits are threatened	3.98	2.01
Pay the full financial cost of using energy and natural resources	3.05	2.05
Assume total financial responsibility for environmental pollution caused by business activities	3.34	2.12
Proceed with activities for which environmental risks can be fully evaluated and controlled	3.40	1.75
Average score for environmental issues	3.09	1.14

Source: Author



Nowadays, society has concerns and interests other than rapid economic growth – in particular, a concern for the quality of life and for the preservation of the environment. Anshen<sup>30</sup> writes that "it will no longer be acceptable for corporations to manage their affairs solely in terms of the traditional internal costs of doing business, while thrusting external costs on the public."

To deal intelligently with the question of business responsibility for the environment, one must realize that business does influence the ecological system. Much of what we do to reduce, eliminate or avoid pollution and depletion of scarce natural resources is in our collective self-interest. Basically, that can be taken as a whole conclusion of this segment of the research, as presented in Table 4.

In an effort to conserve irreplaceable resources, to protect the environment from degradation and to restore it to where it was before being injured, mean response values indicate a high consensus that the organizational unit level ought to perform the following activities: adopt prevention programs at a formal level (2.34) and avoid environmental pollution (2.40). The highest agreement on the adoption of prevention programs at a formal level indicates that environmental pollution cannot be stopped without business and the government working together. The main proposals for revitalizing the environment conceptualize the government as initiating the programs that will push business into responsible actions.

One aspect of the environmental dilemma that raises the question of social justice is determining who should pay the costs of environmental protection and restoration. There are two popular answers to this question currently in circulation: that those responsible for causing the pollution ought to pay and that those who stand to benefit from protection and restoration should pick up the tab. Statement in this questionnaire are primarily associated with the first answer. The is moderate agreement on the following organizational unit level activities: paying full financial costs for energy and natural resources exploitation (3.05), reducing business activity's influence on environment (3.11),

full financial responsibility for environmental pollution (3.34) and continuing activities for which the environmental risks are measurable and controllable (3.40). In conclusion, respondents have a neutral attitude toward releasing financial funds for environmental restoration and toward jeopardizing financial income (3.98).

Ethical behavior in the business world, including when environmental issues are concerned, is often assumed to come at the expense of economic efficiency. The overall conclusion of this research is that corporations have other responsibilities besides profit; they also have responsibilities to customers, their employees as well as to the environment and to society at large. Corporations have responsibilities beyond simply enhancing their profits because, as a matter of fact, they wield great social and economic power in our society. Business decisions can not be exclusively economic decisions because they are interrelated with the whole social system, including the legal system.

The literature on business ethics refers to the law in many segments. It does not imply that the only guiding principle for deciding what is right or wrong should be whether it is legal. The law reflects society's minimum norms and standards of business conduct, so it is obvious that there is a great deal of overlap between what is legal and what is ethical. Generally speaking, most people believe that law-abiding behavior is also ethical behavior. But there are many standards of behavior agreed upon by society that are not codified in law. The domain of ethics includes the legal domain but extends beyond it to include the ethical standards and issues that the law does not address.

The statements eliciting level of agreement or disagreement on law issues are presented in Table 5. The general conclusion is a slightly less positive attitude towards applying legal principles at the organizational unit level when compared to ethical, environmental issues etc. (3.48).

**Table 5:** Mean response values for questions and statements eliciting level of agreement on law issues

Question/statement	Mean level of agreement or disagreement	Standard deviation
Always submit to the principles defined by the regulatory system	3.87	2.22
Refrain from bending the law even if doing so could improve performance	3.41	1.75
Abide by contractual obligations even though they may be costly	3.16	2.01
Average score on law issues	3.48	1.52

Source: Author

Moderate indifference towards obeying legal principles may be connected with the overall confidence in the Croatian legal system or lack thereof. Evidently respondents do not find the law as a fully adequate vehicle for ensuring socially and morally acceptable business behavior. More socially responsible behavior requires, instead, that corporations and the people within them not just respond to legal requirements but uphold high moral standards – and that they themselves monitor their own behavior because there are limits to what the law can do to ensure that business behavior is socially and morally acceptable.<sup>31</sup>

Looking at the results, although we do not have strong evidence to support all hypotheses, we can say that the data indicates that employees are mostly sensitive on law-related issues when compared to other issues.

## 4. CONCLUSION

The aim of this article is to obtain a better understanding of employees' attitudes toward ethical issues. We explored four ethics issues: (1) attitude to ethical issues in general, (2) information manipulation, (3) environmental issues and (4) law issues. This study examines variation in attitudes toward ethical issues based on the data collected from a questionnaire survey. The data set is composed of employees who participated in the survey. Although firms were randomly selected to participate in the survey, it is not clear to what extent they apply to the population as a whole; this would present an interesting topic for further study. Results could be useful both to policy makers at the government level and to the managers who might be worried that a low sensitivity to ethical issues could influence their firms' performance.

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