

**A STUDY ON THE INFLUENCE OF PERSONALITY
TRAITS, MORAL COURAGE, AND
ORGANIZATIONAL CLIMATE ON ETHICAL
DECISION – MAKING AMONG BANK EMPLOYEES
IN KOTA KINABALU, SABAH**

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DEGREE OF MASTER OF BUSINESS
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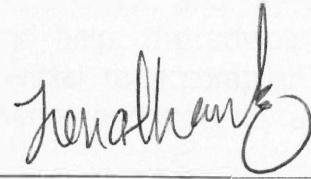
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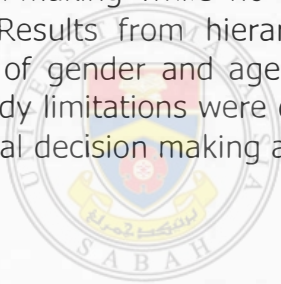


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ABSTRACT

A STUDY OF THE INFLUENCE OF PERSONALITY TRAITS, MORAL COURAGE, AND ORGANIZATIONAL CLIMATE ON ETHICAL DECISION MAKING AMONG BANK EMPLOYEES IN KOTA KINABALU, SABAH

This study examined the influence of personality traits, moral courage, and organizational climate on ethical decision making among the bank employees in Kota Kinabalu, Sabah. Data for the study were collected from a cross-sectional survey of bank employees working in various categories of banks – local private, local government-linked and foreign banks operating in Kota Kinabalu. Self-administered study questionnaires were distributed to potential respondents through direct contact with the respondents at their workplace. At the end of the survey period, a total of 141 responses were obtained. Data were analyzed using SPSS to generate factor analysis and regression analyses. The results showed that the level of ethical decision-making among the bank employees in Kota Kinabalu is moderate (mean=3.36 based on a 5-point Likert scale). Moral courage and organizational climate showed positive and significant influences on ethical decision-making while no significant results were obtained for personality traits. Results from hierarchical regression showed that the moderating effects of gender and age are not significant. Implications of the findings and study limitations were discussed. Suggestions for future research related to ethical decision making are also provided.



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ABSTRAK

Kajian ini untuk meneliti kesan pengaruh daripada ciri – ciri personality, keberanian moral, dan iklim organisasi terhadap penghasilan keputusan etika di kalangan pekerja bank yang berada di kawasan Kota Kinabalu, Sabah. Data untuk kajian ini telah dikumpul melalui survei silang rentas pekerja bank yang bekerja di bank – bank seperti bank tempatan swasta, bank dari luar negara, dan bank kerajaan yang sedang beroperasi di Kota Kinabalu. Soal selidik yang boleh diisi sendiri telah diagihkan kepada responden yang berpotensi melalui cara dengan berhubung secara terus dengan responden. Pada akhir tempoh kajian, sebanyak 141 balasan daripada respondent yang boleh digunakan untuk kajian tersebut. Data yang dikutip dianalisis oleh SPSS untuk menghasilkan analisis factor dan regresi. Keputusan kajian telah menunjukkan bahawa tahap penghasilan keputusan etika antara pekerja – pekerja bank di Kota Kinabalu adalah sederhana (3.36 berdasarkan 5 – poin skel Likert). Keberanian moral dan iklim organisasi mempunyai kesan positif terhadap penghasilan keputusan etika manakala tiada keputusan significant yang terdapat dalam factor ciri - ciri personality. Keputusan daripada analisis regresi berhierarki menunjukkan bahawa kesan penyerderhana daripada jantina dan umur adalah tidak signifikan bagi penghasilan keputusan etika dengan setiap pemboleh ubah bebas. Implikasi dan kekangan dapatan kajian dibincangkan. Cadangan untuk penyelidikan masa depan berkaitan dengan penghasilan keputusan etika jugak dikemukakan.



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CHAPTER 1

INTRODUCTION

1.1 Overview

Generally, business ethics is the written and unwritten codes of principles and values that govern decisions and actions of a business. Perhaps one of the reasons why the world economy is presently in a crisis is the lack of business ethics in the market place. In other words, unethical business practices can cause the downfall of a business.

The breadth and depth of what may be classified as unethical business practices ranges from execrable accounting practices to unfair treatment of workers. Since unethical business practices can be harmful to individuals and businesses, it is important to acknowledge the role of ethical business decisions. Companies and business people that adhere to ethical business decision making practices will not only thrive and out-run their competitors, but will provide a healthy and wealthy environment to their business stakeholders.

Companies and people that behave in a socially responsible manner are more likely to be more successful than those whose actions are motivated solely by profits. Even though businesses can often make short-term gains by acting in an unethical fashion, such behaviors tend to undermine the business over time. Therefore, most of the organizations that come from various industries should avoid unethical business practices, and they should make a move that provides value to the society, and add value to people's life.

According to Jones (1991), ethical decision making can be defined as making decisions that are ethical, that is, decisions that are both morally and legally acceptable. For example, in some manufacturing industries in the countries such as India where adult manpower can be readily available yet some foreign companies operating in India chose to use child labor and forced labor as their source of

increasing their productivity. These companies are said to have made unethical decisions.

Balmer, Fukukawa and Gray (2007) suggested that organizations which make decisions to focus on corporate social responsibility could benefit from getting higher revenue where most of the revenue is generated from the positive consumer support of the company that is doing goodwill for society. Besides, organization can use their ethical behavior to help build up their companies' brand awareness and recognition among the consumers.

According to Grell (1993) business ethics is important as this issue is relevant in any industry - healthcare industry, taxation, or accounting firms, information technology industry, schools and university as well as the public sector. In view of its impact on people and organizations it is important to conduct studies that focus on finding out what lead managers and employees to behave ethically or unethically. Results from these studies will provide a guideline to managers so that their knowledge on ethics can be enhanced and prevent unethical behavior in their company's administration.

1.2 Problem Statement

There is an increase in public concern for ethical matters. Many members of the public are having the perceptions that businesses do not put much emphasis on ethical considerations in their operations (Alam, 1995). This public concern is very legitimate in view of the recent high profile corporate scandals around the globe.

For example, the top management and auditors were the culprits in the Enron case. Here is the example of the Enron scandal where the Enron's CFO, Andrew Fastow, was behind the complex network of partnerships and many other questionable practices. He was charged with 78 counts of fraud, conspiracy, and money laundering. Soon Fastow accepted a plea agreement in January 2004. After pleading guilty to two counts of conspiracy, he was given a 10-year prisons entence and ordered to pay \$23.8 million in exchange for testifying against other Enron executives.

In Malaysia, the Transmile case has generated a degree of shock to the local investment community when its fraudulent profit figures were uncovered in 2007. Transmile's troubles started following an accounting scandal in mid-2007 that resulted in a massive drop in the company's share price, which was at its highest on Jan 3, 2007 at RM14.40. The company now owes more than RM500mil to creditors in the form of convertible bonds and medium-term notes which it is unable to repay after freight traffic crashed in late 2008 to early 2009, which also resulted in a sharp fall in freight rates.

The more recent financial crisis in the US has been attributed to unethical behavior among the bankers who were giving away credit cards to people who they knew could not afford to pay back their credit cards debt resulting in the sub-prime crisis. It's widely reported that the average United States citizen owes over \$9,000 in credit card debt alone. That's actually a misleading statistic the true figure that is shows the total credit card debt of the United States and divided it by the number of U.S. citizens, it would be \$9,000.

However, a more accurate statistic is the median credit card debt where half of households owe more than, half owe less which is \$2,200. According to statistics from the Federal Reserve of United States (2005), 56 percent of U.S. households owe nothing in credit card debt (25 percent have no credit cards at all) which means here there are 19 percent of the US citizen owe the credit card debt.

In recent years, the banking industry in Malaysia has gone through restructuring and consolidation such that today, only ten local banks will compete in the marketplace. This new development will enable these banks to be more prepared to compete with foreign banks when Malaysia deregulates fully its financial sector. Deregulation will lead to increased competition, thus banks will have to determine the appropriate strategies that are needed to achieve competitive advantage. Being in the service industry, one important source of competitive advantage for banks is their human resources. While the bank employees must be competent, they must also be ethical.

However, Joseph (2000) claimed that, in an organization, about one in eight employees indicate that they feel pressure to compromise their organization's

ethical standards, whereas, one in three have observed misconduct at work and stated that they are afraid to report such behavior for fear of punishment by their management and co-workers. Furthermore, due to the fast pace of technological changes in the banking industry, there will be lesser face-to-face transactions which may lead to new problems and issues relating to ethical practices.

There are some of the reason that has been stated by Charles Lamont who he also holds the Post Chair of Ethics and the Professions at The American College. He stated that there are five reasons of the financial industry where there are the unethical decision making situation occur. The reason that has been discussed by him was those employees self interests were sometimes transform to greed and selfishness. For example, swaps (where two communication companies agree to exchange the right to use excess bandwidth on their networks) fall into this category. Each company recognizes the income generated in the quarter earned and defers the expenses through capitalizing them as an asset and logging the cost as a recognized expense over time, resulting in an inflated bottom line. This is what happened at Qwest during the first three quarters of 2001, when the company was selling \$870 million of capacity, while at the same time buying \$868 million of capacity.

These swaps appeared to be round-trip transactions, which served no purpose other than to inflate Qwest's revenues. He also says that companies were making money out of their finance department but not from selling products, not from doing what the company did, not from fulfilling the company's mission, but from playing around with its asset mix.

There is reason that some of the employees in the banking industry are stunted in moral development which could lead them to making unethical decision. He also discussed that Business schools, too often reduce everything to an economic entity. The business schools usually do this by saying the fundamental purpose of a business is to make money, maximize profit, or the really jazzy words maximize shareholder value and it never gets questioned. Now, if the fundamental purpose never gets questioned, the ethics never get questioned, because the fundamental purpose of something gives the people reason for its existence. It tells

them whether they are doing it well or not and it is the ultimate ethical question: What's your purpose doing this?

There also bank employees that equate moral behavior with legal behavior, disregarding the fact that even though an action may not be illegal, and it still may not be moral. For example, IRS regulations repeatedly single out actions with no legitimate business purpose (like swaps). If the employees are doing things with no legitimate business purpose in order to avoid taxation, what are they doing actually? They are violating the spirit as they are staying within the letter, but there's no purpose there except to get them around the law.

The reason like professional duty can conflict with company demands are one of the reason that cause banking employee making unethical decision. For example, a faulty reward system can induce unethical behavior. A purely self-interested agent would choose that course of action which contains the highest returns to himself or herself. There is example shows that considering the misguided practice of selling indexed annuities to the elderly. If a company is paying a high commission for that product which is 15 percent of the commission, versus a lower commission for a more appropriate product which is 3 percent, a salesperson may disregard the needs of the client or assume that the company supports this product and its applicability by its willingness to pay fivefold the compensation. Sooner or later, people are going to give in to that temptation. The purely self-interested agent is just responding to the reward system that is in place.

1.3 Research Questions

This study attempts to address the following research questions:

1. Do factors such as moral courage, organizational climate and personality traits influence ethical decision making of bank employees in Kota Kinabalu, Sabah?
2. Do personal attributes such as gender and age moderate the relationships between ethical decision-making and organizational climate, moral courage and personality traits of bank employees in Kota Kinabalu, Sabah?

1.4 Research Objective

This study attempts to achieve the following research objectives:

1. To determine the extent to which the Big Five Personality Traits influence ethical decision making of bank employees.
2. To determine the extent to which organizational climate of the bank influences the ethical decision making of bank employees.
3. To determine the extent to which moral courage of the bank employees influences their ethical decision making.
4. To investigate whether age and gender moderate the relationships between ethical decision-making and organizational climate, moral courage, and personality traits of bank employees.

1.5 Scope of Study

This is a cross sectional study of bank employees in Kota Kinabalu. In recent years, rapid growth of the city has attracted the banking industry to this area where by the number of banks and bank branches have increased significantly.

Previous studies on ethical decision-making have been conducted on professional accountants Marshall, Smith and, Armstrong (2006), school principals Dempster, Carter, Freakley, and Lindsay (2004), inexperienced students (Haines & Leonard 2007) and employed undergraduate students Manley et al., (2007), Glover, Bumpus, Sharp & Munchus (2002). In this study, an attempt is made to study the ethical decision-making among bank employees.

As for the Dependent Variable, this paper is focus mainly on determining the ability of ethical decision making of bank employees in the area of Kota Kinabalu, Sabah. According to Jones (1991) ethical decision making can be defined as "a decision that is both legal and morally acceptable to the larger community" and stated that unethical decision are illegal or morally unacceptable. Justification from problem statement shows that it is viable ethical decision making to be

conducted in this study because it helps those managers to be aware of the ethical decision in an organization which mentioned by Dempster et al., (2004).

In this research, the independent variable that will be included in this is organization's climate. In Singhapakdi, Vitell, and George (1994) paper, it shows that the climate of an organization was not included in their study. As mention by Bartel, (1967); Ferrell and Gresham, (1985); Hunt and Vittel, (1986) in their papers climate plays an important role to influence an employee and a manager's ethical decision making process and at the same time it will also influence the outcome of a decision.

According to Wortman (2006), moral courage is a most promising characteristic of an individual that could influence the decision making process of an individual. This statement also supported by Harris (2003) and Miller (2005) where they mention that moral courage can be developed within an individual and it can begin to analyze the possible measurement of the moral courage to the relationship of the ethical decision making of employees in the banking industry.

Besides that, the big five personality traits were also included as the independent variable that could influence the decision making of the certain individual in the research done by Hargis (2006), the big five personality traits such as agreeableness, conscientiousness, extraversion, openness to experience and neuroticism are the predictors ethical decision making behavior of an individual. Therefore, it was selected to be included in this study as well.

In this paper, the moderating effects are the personal attributes of the banking employees such as his or her gender and the age of the banking employees. According to Ford and Richardson, (1994), Glover, Bumpus, Sharp and Munchus (2002), Pimentel, Kuntz, and Elenkov (2010) and O'Leary and Stewart (2007) the personal attributes like age and gender have moderating effects on the ethical decision making.

This study takes the 'Issue-Contingent Model' proposed by Jones (1991) as the core of the theoretical foundation, and it also refers to their ethical decision

making models proposed by Victor and Cullen (1987), Harris (2003) and Miller (2005), Hargis (2006) and Ford and Richardson, (1994).

It is expected that this study may provide evidence for the possible effect on ethical decision making. On the other hand, a further validity tests will be done on the Victor and Cullen (1987), Harris (2003) and Miller (2005), Hargis (2006) model as well. Moreover, this study further investigates the moderating effects of age and gender between the organizational climate, moral courage and the big five personality traits on ethical decision making of bank employees Ford & Richardson (1994).

1.6 Importance of Study

There are several reasons why it is important to adhere to ethical decision making in this research. First, norms promote the aims of research, such as knowledge, truth, and avoidance of making unethical decision. Second, since research often involves a great deal of cooperation and coordination among many different people in different disciplines and institutions, ethical standards promote the values that are essential to collaborative work, such as trust, accountability, mutual respect, and fairness. Third, ethical decision making norms in banking industry to be included in research also help to build public support for this research. This is because people more likely to fund research project if they can trust the quality and integrity of research.

Finally, many of the norms of research promote a variety of other important moral and social values, such as social responsibility, compliance with the law, and health and safety. Ethical lapses in research can significantly harm human and students, and the public. An example from medical industry shows a researcher who uses false information of clinical trial may harm or even kill patients who fail to abide by regulations.

The benefit of this research study is that it can help the banking industry in Sabah to create awareness among the bank employees, the importance of ethical decision-making. For the bank's top management, this study will provide evidence on the importance of providing an organizational climate that is supportive of ethical decision-making.

Evidence on personality traits and moral courage will help the bank's top management in their recruitment process of new bank employees. This study will identify what personality traits will lead to ethical decision-making. This information will help the banks to recruit potential employees that possess moral courage and personalities that promote ethical decision-making. An organization that consists of managers and employees that can make ethical decisions can help the organization to build its competitive strategy and achieve greater levels of business performance.

1.7 Summary

The main objective of this paper is to investigate the extent to which the organizational climate, the moral courage, and personality traits will influence the ethical decision-making of bank employees. Understanding the organizational climate is very important to employees and managers because the rapid change and diversification of the climate will lead to the occurrence of the ethical issues in organizations. The personality traits and moral courage of banking employees are important as well, because different personality traits and moral courage can influence their behavior in making decisions.



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CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

According to Manley, Benavidez and Dunn (2007), employees in certain organizations are having difficulties in making ethical decision when they faced ethical dilemmas. This statement is supported by Dempster et al., (2004), where they think that ethical dilemmas faced by the employees in every level of management in organizations were come together with the pressure from conflict in between the peers or colleagues in the organization.

On the other hand, Fritzsche and Becker (1983) found out that those employees from different levels of the management show their decision making behavior that would vary across types of ethical problems or dilemmas they encountered. Therefore, Fritzsche and Becker (1983) also argued that their decision making behavior will influence their ethical decision making in an organization, at the same time it will influence the company's work performance.

As mentioned by Manley et al., (2007), most of the organizations are in the trend of selecting employees who will perform better on job, make good team workers, be more committed to the organization, stay longer in the organization, be good organizational citizen and the most important of all is able to make decision regardless to what situation they face. Since most of the organization's activity is going to go through the process of making decision and this shows that it is a necessary effort to examine those employees' personality traits and their organizational social norms and moral courage which could influence their ethical decision making, especially in the banking industry.

As a result, attention in identifying the factors that influence the banking employees ethical decision making are important to be studied. The focus of this dissertation is to investigate the possible influence of personality traits Hegarty and Sims (1978), (1979) and the temporal immediacy dimension of moral courage May,

Hodges, Chan and Avolio (2003) and organizational climate Victor and Cullen (1987) as well as both individual differences and contextual factors on the ethical decision making process.

2.2 Ethical Decision Making

According to Jones (1991), ethical decision making can be defined as the ethical decision that is both morally and legally acceptable and unethical decision that is illegally and morally unacceptable. In the research that was done by Manley et al., (2007), they stated that the large company like Tyco, Worldcom and Enron scandals are categorized in those companies that could not make a good ethical decision that can be acceptable legally and morally among the economists, corporate head, human resource manager, and the community. As mention by Beu, Buckley and Harvey, (2003) ethical decision making is a complex and multidimensional process and some of the attention from certain parties that were involved in decision making must be given to the individual (Employees and managers from different level), group members, and the organization itself.

According to Manley et al., (2007), employees from every level of the management is crucial to make decision for the organization that they work for, because most of the organizations nowadays are focusing on the one criterion performance of ethical decision making. In recent years, organizations are increasingly looking to select employees or managers that will make good ethical decision. This statement is supported by Manley et al., (2007) as the reason that the organization is looking for the good employees and managers that can make good decision is because they can help their organization to avoid any legal dispute which involves business ethics issues. Besides, McKendall and Wagner (1997) also argue that they found out 80 organizations in their studies would face of lower profitability with the reason that association with higher frequencies of detected serious violation of the ethical laws.

Several writers like Abels (2001); Loewenberg et al., (2000); Reamer (1990) ,Robison and Reeser (2000); and Rhodes (1991) have most of the research regarding ethical decision making of the employees in organization. Wortman (2006) has come out with the statement that most of the managers and employees form every level of the management have encountered difficulty in making ethical