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Interrelations of Ethics and Management in Business

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ABSTRACT

Nowadays, the only key to survive in the competitive market is to understand all marketing rules and aspects. The most crucial concepts in this field are related to managerial, ethical and economic issues and the interrelations of these three indicators. Ethical issues are not only directly connected with businesses, but also compose corporations' activities in accordance with global marketing regulations. By means of ethical issues managers can make SWOT analysis to overcome the problems inside and beyond the corporations. In this study the author attempts to show the correlation of these three indicators by regression and Spearman's analysis as statistical approaches.

Introduction

Nowadays many managers may consider that ethical issues are not too much related to managers' decision making and are not too much effective in the management process. But the fact is that they are exactly correlated; the concept of managerial ethics shows this correlation rather obviously. It is an obvious fact that management is a core element for any corporation to reach its goals which are economic growth and benefits. On the other hand, upon the study of some well-known corporations which didn't pay sufficient attention to ethical issues in management field and thus doomed to failure we initiated to make a survey related to the significance and necessity of ethics and its impact on management process, consequently on the solution of economic issues.

Materials and methods

Qualitative, statistical and applied researches have been conducted. It implies that the results which have been derived from this research can be applied in reality. The aim of this research is to show the correlation of ethical issues and management in business. To show this correlation more clearly the methods related to data collection, modeling, mathematical fraction and Spearman's correlation analysis have been used. For in-depth analyses we have conducted surveys in Central Bank of Iran, Tehran branch. It was selected as the case study in this survey due to its importance among financial institutes worldwide. Customers and shareholders are considered as the main assets for the banks. Thus, in this survey, 36 loyal customers with more than 10 years' loyalty to this bank have been questioned about the reason of their loyalty according to the ethical indicators mentioned in the following sector. The questions were ranked from 5 points to 1 point; the calculations were done by means of SPSS and Minitab software according to the data derived from the questionnaires. The models which the author suggests are the following:

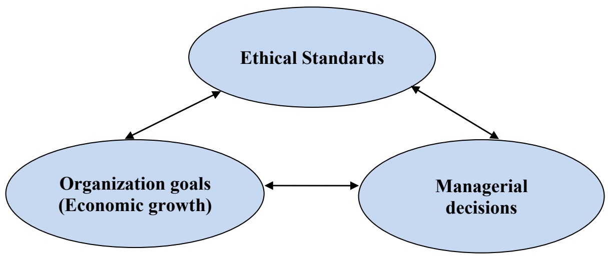

Figure 1. Ethics, management and economic correlations (*composed by the author*).

This model shows the close interrelations between ethical standards, managerial decisions and organization's goals. It emphasizes the crucial role of ethical issues within an organization. Individuals in an organization will not be able to cooperate properly to meet the organizational goals without considering ethical issues.

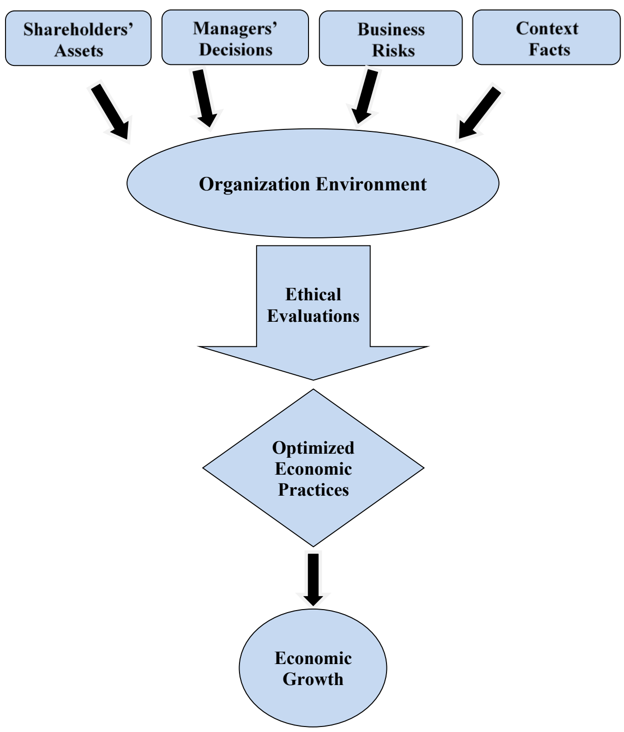

Figure 2. Ethical model to have optimized economic practices (*composed by the author*).

We can show the effectiveness and importance of ethics in small and huge enterprises as in the model of Figure 2. If we assume the organization activity as a mechanism, its inputs which are practiced in this procedure can be considered as the following: shareholders' assets, managers' decisions, business risks and context facts. After the needed procedure is accomplished, its results enter the next phase, namely ethical evaluation phase. This phase controls the results according to external and internal ethical issues in the management and economic field. If the results are ethical, we will have optimized ethical economic practices. At the final phase, these ethical economic practices will lead to economic growth which is the goal of any organization.

Results and discussions

Managerial ethics is a set of principles and rules stated by the upper management that define what is right and what is wrong in an organization (Terry, Cooper, 1994). In fact it is the guideline that helps direct a lower manager's decisions in the scope of his or her job when a conflict of values is presented. It is clear that without considering these values and standards, not only the individuals but also the groups in an organization will not be able to cooperate properly to reach the organization's goals, namely- economic growth.

Ethical issues are closely connected with economic issues. To understand the concept of this interrelation we should first understand the ethics indicators. Generally we can divide ethics indicators into two parts:

Internal ethics indicators, which are ethics enforcement inside the corporation and external ethics indicators, which are ethics enforcement outside the corporation (e.g. global marketing).

Some of the most important internal ethics indicators are explained below:

- Enforced pressure to compromise organizational standards: this kind of pressure is a leading indicator of the potential for future workplace conduct.
- Observed misconduct: it is the most fundamental indicator of whether employees follow the rules and regulations and live out a firm's core values.
- Reporting of observed misconduct: reporting allows leaders to address and fix ethical workplace issues since management cannot address problems it does not know about. Consequently, the availability of anonymous and/or confidential reporting mechanisms is an important component for promoting an ethical workplace. Management should clearly convey the availability of such reporting methods, encourage their use and ensure tipsters that they will be protected if they make a report (Rezayi manesh, 2018).

External ethics indicators are those which influence the process of enterprise in the market. Ignoring these ethics can lead to serious harmful consequences for the whole corporation. Some of these indicators are:

➢ *Manipulating accounts*

Most companies are involved in the cooking of their books to hoodwink investors, lenders and end-consumers. They tweak their financial reports to show inflated profits and lowered depreciation. This makes investors think that the company is faring well, and they end up buying more stocks from the share market (Terry, Cooper, 1994).

➢ *Misleading product information*

Many companies promote injurious products with misleading information that can be harmful to consumers or the environment, purely for the sake of improving the bottom-line (Terry, Cooper, 1994).

➢ *Unfair competition*

Defamation of a competitor, misappropriation of their trade secrets, and trade mark infringement – all these fall under unfair competition which gives a wrong impression to the consumers about the competitor and its products. It is not wrong to use a competitor's name in the marketing material, but it should not deplore the company or its products (Lowton, 2000).

Provision of models for different size enterprises concerning the ethical indicators can be considered as a helpful tool for managers. In any organization there are many important economic decisions which must be taken. These decisions must be taken for the benefit of the whole corporation and not only for individual(s). But the fact is that the economic domain is very broad - from small enterprises, like individual businesses and trades, to huge corporations - and consequently the ethical roles and their effectiveness in these different domains are different as well (Carrol, 1990).

Let's take an individual trade as an example. In such an enterprise, the shareholder and manager are usually the same and the rate of required workforce is usually lower than that of in a huge corporation. Thus, the role of internal and external ethics in such enterprises is less significant than in huge ones. While in the huge corporations, such as financial institutes (e.g. banks), there are a great number of employees and a great stress is put on the internal ethics to manage and lead the corporation. On the other hand the need of external ethics is also a must here, because these corporations have international enterprises and activities and must follow the international ethical standards to survive.

In fact if we consider these relations as a mathematical correlation we can suggest the following fraction: (fraction is composed by the author):

$$\text{Economic growth } \alpha \ \frac{\text{Management factors} * \text{Economic factors}}{\text{Unethical issues}}$$

Economic growth is directly proportional to economic and management indicators and is inversely proportional to unethical issues. While the unethical issues decrease, because it is located in denominator of the fraction, the numerator of the fraction increases and the economic growth will increase subsequently.

The Effects of Observance of Managers' Professional Ethics on Bank Customers' Loyalty

When developing business field and competitiveness the organizations sometimes face with the harmful risk of losing customers in recent decades. Therefore, considering the effects of different kinds of business ethics, such as behavior and interaction of employees with customers, has become more important than before. In this regard managerial ethics is of high significance. It controls all standards within and outside an organization to keep the customers satisfied with services and prevent the risk of losing them.

This study attempts to show that preserving old customers and establishing a strong relationship with a new customer ensures the survival of the mentioned bank among other competitors. It also confirms the claims of experts in this field, that the cost of keeping current customers is far lower than that of attracting new ones. It is necessary for banks to ensure their survival in a competitive market by providing a precise definition of the concept of loyalty and applying realistic methods to achieve their high goals. According to the results of some researches, observance of ethical considerations in managers and employees' behaviors has a major impact on customers' loyalty to the products and services of the institutions (Hill & Alexander, 2000).

To have a better understanding we have examined the interrelation of ethical issues and customers' loyalty in the target community.

The number of customers was due to statistical standards of random samples. We have examined this interrelation through Spearman's analysis in the target community.

Spearman's correlation analysis

After suggesting the ratio between two variables as in the model of figure 2, we have tried to measure the impact of managers' professional ethics on customers' loyalty. Eight hypotheses have been considered:

H0: There is no significant relationship between observing managers' ethics and customers' loyalty in banking system.

H1: Observing ethical principles and professional behavior of managers with customer's loyalty has a significant relationship.

H2: Enforced pressure to compromise organizational standards by managers has a significant relationship with the loyalty of the customers.

H3: Observed misconduct by managers has a significant relationship with customer's loyalty.

H4: Reporting the observed misconduct to mangers has a significant relationship with customer's loyalty.

H5: Manipulating accounts by the mangers has a significant relationship with customer's loyalty.

H6: Misleading product information by the mangers has a significant relationship with customer's loyalty.

H7: Unfair competition of the company mangers has a significant relationship with customer's loyalty.

The correlation test results are shown below:

Table 1: Results from Spearman's correlation coefficient (N=36)*

Ethical indicators	Correlation	Sig
Enforce pressure to observe standards	0.721	0.000
Observed misconducts	0.709	0.000
Reporting of misconducts	0.702	0.000
Manipulating accounts	0.690	0.000
Misleading information	0.678	0.000
Unfair competition	0.632	0.000

* *Composed by the author.*

From the results of correlation between managers' ethical issues and customers' loyalty, it can be concluded that, since the level of significance is less than 1% ($p<1\%$), all managerial ethics indicators have a significant relationship with customers' loyalty and all assumptions are confirmed in this study.

The most vivid correlation is related to "enforce pressure to observe standards" and the least correlation is related to "unfair competition".

Regression calculation

Now we'll try to find regression for "enforce pressure to observe standards" as an independent variable and loyalty as dependent variable. Basic formulae for calculating regression line parameters are presented below (Rawlings, Pantula, Dickey, 1998):

$$y = \alpha x + \beta,$$

$$\beta = \frac{n\sum XY - \sum X \sum Y}{n\sum X^2 - \left(\sum X\right)^2} \quad \text{or}$$

$$\beta = \frac{\sum\left(X-\overline{X}\right)\left(Y-\overline{Y}\right)}{n\sum (X-\overline{X})^2},$$

$$\alpha = \overline{y} - \beta \overline{X}.$$

As we have large database we use Minitab to calculate α, β. So we obtain α =3.5 and β = 2.8. Regression line can be utilized to assess the strength of the relationship between variables and for modeling the future relationship between them.

Table 2. Statistical description of ethical indicators in the target community*

Indicator	Max. Degree	Min. Degree	Standard Deviation	Average
Enforce pressure to observe standards	5	3	0.04810	3.921
Observed misconducts	5	2.8	0.04467	3.703
Reporting of misconducts	5	2.6	0.04883	3.623
Manipulating accounts	5	1.98	0.04557	3.477
Misleading information	5	1.80	0.04432	3.345
Unfair competition	5	1.58	0.04138	3.178

* *Composed by the author.*

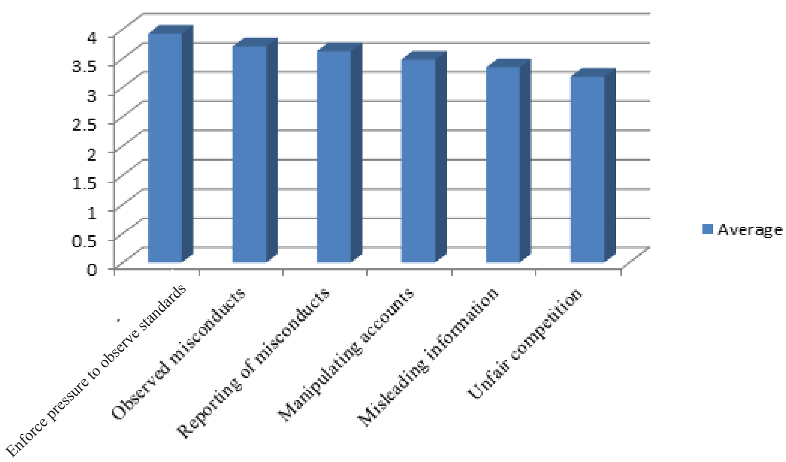

Figure 3. The average degrees of managers' ethical issues in accordance to customers' loyalty (*composed by the author*).

The results of the distribution of the questionnaires in the target community indicating the ranking of the components of professional ethics in the company are shown in table 2 and figure 3.

Conclusion

- There are crucial correlations between ethical issues and management within corporations. Corporations will not be able to see their goals without considering the ethical issues.
- Managers should clarify ethics and classify them elaborately to make SWOT analyses to overcome the problems where it is necessary.
- Both internal and external issues are crucial in corporations' activities and the supervision of these ethical implementations is within the scope of managers' responsibilities.
- Managers should have enough managerial competences to evaluate the implementation of ethical issues with different methodologies (e.g. questionnaires distribution) in the specific fixed periods (e.g. monthly or annually) to become aware of the implementation weaknesses in details as soon as possible.

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