



Employees' Perceptions of Ethics

Promoting an ethical climate in Asia-Pacific organizations

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THE FOCUS on corporate governance, driven by scandals across the world, has led many organizations to develop codes of conduct or ethics to promote ethical behaviour amongst their employees. In the US, section 406 of the Sarbanes Oxley Act 2002 requires companies to disclose whether they have adopted a

code of ethics for their senior financial officers, and if not, disclose the reasons for not doing so. In addition, companies have to disclose any changes to, or waiver of any provision of, their code of ethics. The NYSE and NASDAQ listing standards require companies to adopt a code of business conduct and ethics for directors, officers and employees,

and promptly disclose any waivers of the code for directors or executive officers.

How do employees working in organizations in Asia-Pacific perceive ethics within their organizations? Do these perceptions of ethics vary according to organizational and employee demographics? In this article, we report on the results of research

conducted at Watson Wyatt that examines these questions. The data on employee perceptions of ethics was collected as part of a wider survey of employee opinion which covers almost 6,500 employees across 12 Asia-Pacific countries. We also provide suggestions for improving ethics within organizations.

Ethics and Commitment

Apart from pressure from regulators for organizations to behave ethically and the fact that behaving ethically is the 'right thing to do', several studies have suggested that improving ethics in organizations improves employee commitment and makes good business sense. A 2007 survey commissioned by LRN in the U.S., a provider of solutions that promote corporate ethics and responsibility in the workplace, reported that the average American's willingness to work for a company is significantly determined by whether a company acts ethically. 94 percent of employees surveyed said that it is 'critical' or 'important' that the company they work for is ethical.

In Singapore, a study published in 2004 by two academics, Koh Hian Chye and E. Boo, which involved a survey of 237 Singapore managers, suggests that there are significant and positive links between ethical culture and job satisfaction, and between job satisfaction and organizational commitment.

Ethics across Asia-Pacific

In Watson Wyatt's survey, we asked employees to score their organisation on a scale of 1 (strongly disagree/far below average) to 5 (strongly agree/well above average) for 8 ethics-related questions. We call the overall scale the 'ethical climate' of the organization. Table 1 p.30 shows the average (mean) scores for the 8 questions and the average ethical climate score across the 12 Asia-Pacific countries.

However, a multinational corporation surveying employee perceptions of ethics across the different countries that

they operate in should not assume that high employee perceptions in a country means that ethical standards are higher in that subsidiary or division in that country. Nor should they be satisfied with the cross-country comparisons alone. The differences in ethical climate perceptions across countries and the relative rankings of these countries should be interpreted with caution, as these perceptions may be influenced by unique cultural factors in different countries. Understanding the country norms across the different countries they do business in, and comparing their employees' perceptions against those norms by country, is fundamental to making meaningful ethical climate and behaviour improvements.

Ethics across demographics

Next, we look at whether employee and company demographics are related to employee perceptions of ethical climate in Asia-Pacific overall, after controlling for country differences. We looked at the following employee demographics: gender, tenure, age, and job level (top/senior management, management and others); and the following company demographics; industry, company size (based on revenues); company type (e.g., sole proprietorship, partnership, listed company; non-profit vs. for-profit); and Western multinational versus Asian companies.

For employee demographics, we found a very strong relationship between job level and ethical perceptions. Top/senior management had better perceptions compared to other management, who in turn had better perceptions compared to other employees. This raises the issue as to whether companies have successfully cascaded ethics down the organization, or whether those higher up in the organization under-estimate the ethical issues faced by those closer to the ground.

For company characteristics, we found that employees in larger organisations (revenues above USD 25 million) have

better perceptions and these perceptions generally get better as the organization gets larger. This may be due to larger organisations having dedicated more resources to enhancing ethics or that they are facing less pressure to cut corners to compete effectively. Increasingly, multinationals are extending their business codes to cover their business partners, including suppliers. We expect this trend to continue and smaller companies - which hope to develop business relationships with these multinationals - may have no choice but to raise their standards of ethics too.

We also found that employees in Western multinationals had better perceptions of ethics compared to employees in Asian companies, whether Asian multinationals or domestic organisations. This may be a reflection of the Western multinationals being early movers in adopting business codes.

Governance risks and ethics

The current economic downturn increases the risk of fraud as companies and employees may be more inclined to bend the rules to meet bottom line targets. Employees facing personal financial problems related to the economic downturn may also be tempted to commit fraud. Cost-cutting measures by companies may also affect governance risks. For example, the loss of key personnel may undermine internal controls, and companies may cut their spending on compliance, ethics programs, and risk management. In the October 2008 edition of the Kroll Global Fraud Report, the average company loss from fraud has increased by 22 percent, largely driven by the credit crunch and the difficult economic climate. Several other surveys in a number of countries have also reported an increase in the risk of fraud due to the current economic crisis.

Employees concerned with keeping their jobs may also be less willing to speak up. In our latest survey conducted between May and June of 2008, even

“ Ethical codes must be properly communicated and adequate education should be provided to employees ”

Table 1: Average scores for eight ethics-related questions and overall ethical climate

No.	Question	Australia	China	Hong Kong	India	Indonesia	Japan	Malaysia	Philippines	Singapore	South Korea	Taiwan	Thailand
1	My company clearly communicates its expectations for ethical behaviour.	4.04	3.75	3.80	4.00	3.81	3.51	3.82	3.92	3.91	3.41	3.76	3.74
2	I would feel comfortable raising ethical issues in my company.	3.71	3.60	3.75	3.87	3.44	3.25	3.50	3.74	3.59	3.22	3.64	3.77
3	If I encountered an ethical question or problem at my company, I would know what procedure to follow.	3.91	3.71	3.83	3.99	3.71	3.30	3.75	3.91	3.74	3.55	3.74	3.74
4	My company conducts its business activities with honesty and integrity.	3.85	3.84	3.86	4.12	3.71	3.38	3.89	3.99	4.13	3.66	3.85	3.79
5	I believe the information I receive from senior management.	3.36	3.66	3.79	4.00	3.70	3.21	3.70	3.90	3.82	3.57	3.47	3.62
6	Senior management behaves consistently with the company's core values.	3.51	3.69	3.72	3.95	3.44	3.31	3.65	3.81	3.77	3.65	3.58	3.77
7	Please rate the level of trust that exists in your company between senior management and employees.	3.07	3.48	3.58	3.65	3.10	2.82	3.24	3.43	3.34	3.29	3.19	3.11
8	If management was informed of unethical behaviour, I have confidence they would respond appropriately.	3.72	3.70	3.79	3.96	3.62	3.20	3.69	3.85	3.80	3.47	3.54	3.75
	Overall Ethical Climate	3.65	3.68	3.77	3.94	3.56	3.24	3.66	3.82	3.76	3.48	3.59	3.66
	Rank	8	5	3	1	10	12	7	2	4	11	9	6

before the worst effects of the downturn have started to be felt, we found that employees' willingness to express opinions that differ from others have dropped 11 percentage points, and their willingness to voice opinions within their workgroup has dropped by 16 percentage points, across the Asia-Pacific.

Improving ethics

Poor ethics in an organisation may result in low employee commitment and job satisfaction. It may also result in other direct business costs, as managers and employees may engage in practices such as accepting bribes from customers or suppliers, stealing company goods, employing workers on illegal terms and conditions, falsifying financial statements, setting up businesses that compete with the company, and divulging trade secrets. There may also be a loss of business opportunities, especially as large multinationals increasingly adopt codes of ethics or conduct, or are obliged to comply with strict laws adopted in their home countries relating to

unlawful conduct. This will inevitably impact companies who supply goods or services to these multinationals.

Our research suggests that organisations need to do more to ensure that their ethical expectations are properly communicated to lower-level employees and that these employees receive appropriate education and training to apply ethical standards in their daily work. Smaller organisations, in particular, may need to do more to improve ethical standards. These smaller organisations need to recognise that a high standard of ethics may increasingly become a business imperative.

While our research shows that larger organisations and Western multinationals have more positive perceptions of ethical climate, these organisations also face greater challenges in ensuring that ethical codes are properly communicated, understood and adhered to, and at the same time, take into account how ethical issues may be perceived differently in different cultures. A multinational headquartered in the

United States, for instance, will face reputation risk - if not legal risk - if it fails to recognize that employees in another country used to different standards of ethics may be engaging in behaviour that is totally unacceptable under United States laws. Evidence of this concern is the creation of a new field of work in organizations called 'reputation management', headed by a Chief Reputation Officer. Global brand names, especially those with large workforces like Coca Cola, Nike, HSBC know how quickly their share value can be destroyed if their reputation is compromised through reports of unethical behaviour. Recent scandals which have affected Western multinationals doing business in the Asia-Pacific, such as toxic paint in toys, melamine in milk powder and accusations of use of child labour, are likely to further increase the importance that multinationals will place on robust ethical standards and corporate governance in selecting their vendors and business partners. The Satyam scandal has raised further questions

about corporate governance and ethics even for large Asia-Pacific companies.

Helping the ‘whistle-blowers’

One problem in Asia generally is that, except in some limited circumstances, there is no legislation protecting whistleblowers, unlike U.S., U.K. and Australia. There are few indications that other countries in Asia-Pacific will introduce legislation to protect whistleblowers. Therefore, while an organisation may promise protection for whistleblowers, there is no statutory backing for such protection. Further, in companies which are controlled by founders or management – which are common in Asia - employees may not feel secure about raising concerns of wrongdoing by these founders or management. The close-knit business community may also make a whistleblower fearful that if she reports ethical violations, she may not only lose her job within the company but she may find it difficult to find a job elsewhere.

Conclusion


This makes the right tone at the top absolutely critical. Managers must demonstrate exemplary behaviour. Without the right tone at the top, policies and procedures to improve ethical conduct with the organisation will not work. Management must actively use the code to resolve ethical issues and reward employees who behave consistently with the code – that is, they must ‘walk the talk’. 

Table 2: Recommendations for improving ethics in organizations

Step 1: Setting the right tone at the top	Senior management must emphasise the importance of ethics in making business decisions, and that short-term business considerations must not take precedence over ethical considerations. They must ‘walk the talk’.
Step 2: Assess the current ethical climate, key ethical concerns of employees, and ethical situations which they may have faced.	This is important for assessing where the organisation is at in terms of ethical climate and identifying the types and extent of ethical issues. It will also provide inputs to the development or revision of the ethical code of the organisation.
Step 3: Develop or review the ethical code and put in place a whistleblowing policy	The ethical code must be sufficiently comprehensive to cover the range of ethical situations which may be faced by employees. The whistleblowing policy must provide appropriate channels for employees to raise concerns, and cover issues such as protection of their identity and protection from reprisals when they raise concerns in good faith. It should emphasise that it is the duty of employees to report ethical violations.
Step 4: Communicate the ethical code and whistleblowing policy clearly and widely, get employees to sign off annually, and provide education and training for them to apply the ethical code in their daily work	The ethical code and whistleblowing must be clearly communicated to employees and business partners with strong endorsement from the CEO. Ethical violations by business partners, such as suppliers, may affect the organisation and it is important for the organisation to ensure that its business partners adopt high ethical standards in its business conduct.
Step 5: Monitor the compliance with the ethical code and the implementation of the whistleblowing policy	The organisation must have proper procedures for documenting and investigating ethical violations, and ensuring that the whistleblowing policy is operating effectively. An annual employee survey should also cover their perceptions of ethics and the initiatives undertaken by the organisation to improve ethics.
Step 6: Review policies and procedures for recruiting, developing and rewarding employees to ensure that they are aligned with the ethical standards of the organisation	The organisation needs to ensure that it hires employees with the right ethical values, that these values are reinforced in employee development activities, and that the reward system reflects the importance placed on ethics.



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