A Look at Perceptions about Business Ethics and Organizational Ownership Structure

Abstract

Business ethics is an important topic for all companies to consider today. Unfortunately, over the last decade, the number of business scandals has increased, and this change has been highlighted by the media. This trend presents college business faculty as well as executives and managers with a challenge to ensure that ethical behavior and ethical decision making are evident to those both inside and outside of the organization. This research includes surveys of students, faculty, employees and customers about business ethics in employee owned companies and publicly owned companies. The results are presented along with suggestions to increase awareness and education about business ethics.

Key Words: business ethics, employee owned companies, publicly owned companies
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BUSINESS ETHICS

The number of cases of inappropriate business ethics featured in news headlines has increased over the last decade. Corporate scandals have become commonplace, and the reputations of many businesses have suffered. With the increase in international trade transactions across countries with varying laws, norms and standards, the potential for ethical dilemmas in the world of business has increased. As a result, many companies have had to explicitly state their position on ethics through codes of conduct. Other firms utilize ethics training to ensure that their employees are aware of the organization’s expectations.

Some ethical dilemmas in business are unavoidable, especially with the globalization and increasing complexity of the marketplace. However, executives, managers and employees can prepare themselves to make the best possible decisions. They should focus on ethics education, awareness, equity, corporate governance, knowledge of the law and using scenario analysis to be proactive rather than reactive.

Many aspects of an organization will impact its ethics, including leadership, transparency practices, corporate governance, training programs, operations and even organizational form. Organizational structure can be a factor that is related to ethics in the workplace. One frequently used form is the limited liability corporation, where owners of the firm have their personal assets shielded from liability in the case of wrongdoing on the part of the firm. Another form is the partnership, where partner responsibility and liability are dictated by the level of participation, as in the general or limited partner. Another less commonly used form is the employee owned company.

Given the current economic downturn, many individuals and companies are searching for new strategies and new ways of doing business. Lower incomes, declining sales, and decreased growth rates have caused many companies think creatively when looking towards the future. One business concept that has been used successfully is the Employee Stock Ownership Plan (ESOP). The ESOP is a unique organizational strategy where employee owners take a vital and proactive role in the management of the business. As owners of the firm, these employees participate in important stakeholder relationships as agents acting on behalf of the company.

Employee ownership (EO) is a form of business organization that has many benefits. Researchers have linked employee ownership to positive firm outcomes such as employee commitment, employee participation and improved firm performance (Blasi, Gasaway, and Kruse, 1994). According to the National Center for Employee Ownership, over 11,000 firms and 13 million employees are currently participating in ESOP plans (www.nceo.org). This trend towards EO provides many leadership opportunities for employees, as well as the ability to shape
their future and be rewarded for hard work. Yet many students of business and customers of
these companies are unaware that this type of business form exists.

LITERATURE REVIEW

The EO structure fosters group membership via the common bond of shared ownership. Agency theory (Alchian and Demsetz, 1972) alludes to the fact that the owners of the firm must try to align the interests of the agents or managers of the firm with those of the owners in order to maximize efficiency and profits within the enterprise. Employee ownership programs or employee stock ownership programs (ESOPs) foster this type of cooperation among the external owners and the internal or employee owners of the firm. Barnett and Schubert (2002) discuss this type of covenantal relationship where employees enjoy a mutual commitment to shared values as well as to the welfare of the group. Thus employee ownership can bring benefits to the individual workers in the form of group membership and belongingness, which satisfy human needs as proffered by Maslow (1959). Sengupta, Whitfield and McNabb (2007) noted a significant negative relationship between employee ownership and employee turnover. Tucker, Nock and Toscano (1989) found that employee commitment and job satisfaction increased after the ESOP concept was introduced, concluding that ESOPs do affect employee attitudes. Using an Egyptian sample, Omran (2009) found that a higher concentration of employee ownership had a negative effect on firm performance. Guedri and Hollandts (2008) discovered that employee ownership and firm performance were positively related up to a point, after which the relationship was negative. Therefore they recommend managed growth and limited size for employee owned firms. Welbourne and Cyr (1999) found that employee ownership was positively related to firm performance. Thus the literature is mixed with regards to the employee ownership-firm performance relationship, but this concept is associated with a number of positive firm outcomes.

Many business researchers have included the study of ethics in their work. Biong et al. (2010) found links between power, ethics, and commitment in a sample of 225 retailers, and that these factors impacted firm performance. Porter and Kramer (2002) stated that corporate social responsibility (CSR) and corporate strategy were performance-driven for many firms. Auperle et al. (1985) noted links between CSR and profitability for firms. Collier and Esteban (2007) write about the links between CSR and employee commitment.

These research findings indicate links between corporate ethics (in the form of CSR), employee commitment, and corporate performance. Therefore it makes sense that executives and managers should try to balance these three factors within their organizations. The employee ownership organizational structure was found to be related to employee ethics and superior performance by Corporate Responsibility magazine in its award to the Ohio-based Antioch company for 75 years of ethical leadership and profit-sharing (www.thecro.com). Claydon and Doyle (1996) even relate employee ethics to enhanced employee empowerment. Karnes (2009) discussed how firms with model business ethics programs positively impact employer-employee
relations. Thus many studies have shown positive outcomes as a result of the practice of good business ethics.

**Research Questions**

This paper evaluates the perceptions of business ethics and ethical behavior in employee owned firms and publicly owned firms. For the purposes of this work, the employee owned companies (EOCs) had some form of ESOP, while the publicly owned companies (POCs) did not. This study makes a valid contribution to existing research in that it includes student, faculty, employee, and customer perceptions about business ethics in different organizational forms. The basic research questions addressed here are: 1. Do business students and faculty perceive business ethics are different in EOCs versus POCs? 2. Do employees and managers perceive business ethics are different in EOCs versus POCs? 3. Do customers perceive business ethics are different in EOCs versus POCs? This information should help business college faculty, managers and executives to provide better information, training and learning opportunities about business ethics.

**METHODS**

This study uses the survey technique to assess perceptions about business ethics in the two types of firms. Survey research was chosen because the topic of business ethics is opinion-based. In addition, the desirability for participant anonymity was revealed in a pretest of the survey instrument. Also, the objective of the study was to gain individual answers to survey questions without input from others affecting the data. The pretest yielded no evidence of lack of clarity in meaning or bias within the questions. The survey was administered both in-person and online, depending on the availability and preference of the respondents. All respondents were informed that the survey was undertaken for academic purposes and each participant agreed that his or her participation was voluntary. At the beginning of the survey, respondents were notified that the survey was about business ethics. They were also informed about employee owned companies and publicly owned companies. Definitions and examples of these organizations were provided for clarification. Respondents were told that for purposes of the study, employee owned companies (EOCs) were those with some form of employee ownership program (ESOP), whereas publicly owned companies (POCs) offered shares of stock for sale on public stock exchanges but offered no ESOP. Therefore, the organizational forms of interest were mutually exclusive. The surveys included both closed-ended and open-ended questions to provide opportunities for respondents to provide feedback in their own words.

Six samples of 100 persons each yielded a total sample size of 600. The six samples included undergraduate business students, graduate business students, business college faculty members, employees of employee owned companies (EOCs), employees of publicly owned companies (POCs), and customers of EOCs and POCs. The students and faculty were located at 6 universities in the United States. The employees and customers were located throughout the
United States. All participants were invited by the principal researcher to join the study based on their association with a qualified university or business. 423 participants completed the surveys for a response rate of 70.5%. The surveys were administered in the year 2010. Follow-up interviews were conducted when possible to add insights and explanations to the survey responses.

The purpose of including the university samples is to shed light on the perceptions of students and faculty and also to provide a basis of current information for college business faculty to use to incorporate discussions of business ethics into their classes. The purpose of incorporating the business samples is to determine the employee perspectives and customer perspectives of ethics in these types of firms. The goal for this part of the research is to provide a basis of current information for managers at such firms to utilize to enhance the ethical image of the business.

According to a 2005 *Harvard Business Review* article by Paine, Deshpande, Margolis and Bettcher, which was targeted to managers, the best practices in business ethics include 8 principles. These principles are: transparency, dignity, fairness, citizenship, fiduciary care, property care, reliability, and responsiveness. These concepts are incorporated into the survey questions about business ethics. The citizenship principle incorporates corporate social responsibility (CSR), a major component of business ethics. Following the Kanji-Chopra (2009) model of Corporate Social Responsibility, CSR was conceptualized using a systems modeling approach, which is holistic in nature, with 5 components to assess CSR. These items include: strategic planning, the environment, corporate governance, human resources and social accountability in the community. These items were also incorporated into the survey questions. Hence, the survey includes multiple concepts within the topic of business ethics to capture the many aspects of this construct.

**RESULTS**

The results are presented in Tables 1-4. Table 1 highlights the responses of the undergraduates, graduate students and the college business faculty to the survey questions. The undergraduates noted the innovation in EOCs, while the graduate students believed that EOC managers would take fewer risks than POC managers. Not surprisingly, the college faculty were equally divided on whether EOCs or POCs were more ethical overall.

*** Table 1 about here ***

Table 2 presents the responses of the employees of EOCs and POCs, as well as the customers of both types of organizations. The EOC employees exhibit environmental concerns, while the POC employees note the importance of corporate governance practices. The customers
echo some of the employee sentiments, and state that EOCs would display greater efficiency and productivity than POCs.

*** Table 2 about here ***

Table 3 highlights comments from the undergraduates, graduate students and the college business faculty. These comments show a desire to learn more about both types of firms.

*** Table 3 about here ***

Table 4 presents comments from employees of EOCs and POCs, as well as well as customers of both types of organizations. These comments demonstrate loyalty to the employer from each employee group. The customers display concern for the products or services purchased more so than the providers.

*** Table 4 about here ***

The six groups were asked to rank 10 facets of business ethics in the surveys. These 10 aspects included the following items, which were prevalent in the business ethics literature (Kanji and Chopra, 2010; Paine et al., 2005): 1. ethics statements included in the code of conduct, 2. corporate governance practices, 3. environmentalism, 4. executive risk taking, 5. fairness, transparency and accountability, 6. human resource policies, 7. level of bureaucracy, 8. overall ethics, 9. resource utilization/productivity and 10. truth in advertising. The rankings are included in Table 5.

*** Table 5 about here ***

The undergraduate students were most concerned about environmentalism and fairness, transparency, and accountability in firms, whereas they were least concerned about bureaucracy and executive risk taking. The graduate students were most interested in a firm’s overall ethics and also fairness, transparency, and accountability in firms, while they were least interested in bureaucracy and corporate governance. The college business faculty ranked human resource policies and overall ethics as very important, and they ranked executive risk taking and truth in advertising as less important.

The employees of employee owned companies were most concerned about executive risk taking and firm codes of conduct, whereas they were least concerned about corporate governance and truth in advertising. The employees of publicly owned companies were most interested in corporate governance and resource utilization/productivity, while they were least interested in human resource policies and level of firm bureaucracy. The customers of both types of firms ranked truth in advertising and fairness, transparency and accountability as very important, and they ranked level of bureaucracy and human resource policies as least important.
Although there was some overlap between the groups, the rankings show that each group had different preferences with regards to the importance of the items. Not surprisingly, the undergraduates thought environmentalism was most important of the 10 items. This is a common sentiment within the 18-25 year age range. Another obvious response was the fact that customers ranked truth in advertising to be the most important item on the list. This item actually ranked last for the business faculty and the employees of employee owned companies. Level of bureaucracy ranked at or near the bottom of each group’s scores, indicating a lack of interest in this area of business ethics. These results illustrate the different preferences among the groups, and can provide exploratory results that may constitute the basis for future follow-up studies.

Emergent Themes

A number of themes emerged from the responses. These themes were recorded during the calculation of the survey results and during a content analysis of the open-ended comments. These takeaways can be useful to executives, managers and employees of EOCs as well as POCs, in addition to college business faculty. These concepts can be used to create ethics education and training programs that address relevant business issues for the different groups. The takeaways and lessons learned are listed according to the corresponding sample group.

Undergraduate Business Students

Most of these students do not have a good grasp of what an EOC is, nor its purpose. These students showed that they were open-minded about working for an EOC, investing in an EOC and learning more about EOCs. This group believed that EOCs would foster citizenship, fairness, and fiduciary principles. The “bad perception” of POCs needs to be addressed. The takeaway here would be that more education in business curricula is needed about organizational types, including EOCs and POCs, as they relate to business ethics.

Graduate Business Students

These students were more knowledgeable about EOCs. They thought EOCs were likely to be more ethical than POCs and had greater truth in advertising. However few were familiar with specific EOCs. They believed that POCs were better at performing on the bottom line. They expressed concerns about longevity of EOCs. Therefore more education about these organizations is appropriate. This group thought that EOCs and POCs were similar in terms of community CSR and environmentalism. The lesson learned here is that students are evaluating companies on multiple levels of ethics and CSR.

College Business Faculty

This group thought EOCs had a more local or regional orientation, while POCs were more likely to operate globally. Thus EOCs may not have to deal with complex global ethical issues, such as varying employee working conditions or employment standards. They expressed
the idea that POCs handled diversity better than EOCs, and that POCs also instituted better governance practices. They noted the innovation and “fresh thinking” that EOCs embodied. The takeaway here that faculty should be encouraged to discuss the overlap between ethics and organizational type in courses and in research.

EOC Employees

This group thought that EOCs were more generally more ethical than POCs. However, they thought that EOCs had fewer resources than POCs. They mentioned the fact that few EOCs have had to deal with corporate scandals, whereas many POCs have had to deal with these scandals. The lesson learned here is that employees would benefit from training and open discussions with management about ethical issues.

POC Employees

This cohort felt that human resource policies and procedures were more fair and equitable at POCs rather than EOCs. They attached strongly to community CSR as a benefit of POCs. They also liked the fact that corporate governance was strong at POCs. The takeaway here is that managers should use employee interest in POC benefits to promote employee commitment, employee loyalty and reduced turnover.

Customers

Most customers who responded to the survey were unfamiliar with EOCs. With the current economic downturn, they were hesitant to buy from, work for or invest in an organizational type that they were unfamiliar with. This group expressed a negative feeling about corporate America and big business, so this sentiment bodes well for EOCs that are local or regional. This group had a negative perception when presented with the term “business ethics.” The lesson learned here is that companies need to manage the ethical reputations and images they present to customers. Incorporating ethics statements into advertising, recruitment, packaging, and community outreach programs will inform customers about the commitment to corporate ethics.

Limitations and Future Research

One limitation of the research is that it did not consider firm size. This would be a useful variable to incorporate in the future, as some researchers have linked it to organizational issues. Including additional samples would be helpful as well. For example, adding shareholder perspectives to the sample would provide another viewpoint from an important stakeholder group.

Another limitation of the study is the fact that this study was conducted in the United States. It is likely that the findings would be different if the study were conducted elsewhere. In a Spanish study, Cambra-Fierro, Polo-Redondo and Wilson (2008) found that organizational
values influence employee behavior on and off the job. There is evidence of employee ownership increasing in a number of countries, based on published scholarly articles in the business literature. Steger and Hartz (2008) found that among German firms, employee-owners delegated a great deal of power to the managers of the company, which in turn resulted in a “high moral status for the works council” as well as management policies that were very employee-oriented. Such positive outcomes from ESOPs might also occur in other locations. Therefore it is important that academicians around the world continue studies on business ethics as well as ESOPs. In this way, successful strategies can be disseminated quickly and adopted by global organizations to achieve maximum efficiency and effectiveness.

CONCLUSIONS

This research has revealed the need to increase education, awareness, training and information about business ethics in employee owned companies and publicly owned companies. The results of the survey analysis show that undergraduate business students, graduate business students and college business faculty are interested in these topics, but many do not fully understand the mission or purpose of EOCs. The findings also reveal that workers in employee owned companies and publicly owned companies as well as customers of both types of businesses care about business ethics in their respective employers and goods and services providers. All samples revealed some association with the stereotypes such as “big business,” “cut-throat business practices” and “the almighty dollar.” Therefore inclusive discussions about transparency, openness, accountability and fairness in the corporate world would benefit these stakeholder groups. With more attention to business ethics in these and other organizations, it is likely that the current trends of corporate scandals and unethical behavior in firms can be reversed.

References


Table 1
Survey Results for University Samples

Undergraduate Business Students:
- 90% would consider working for an EOC
- 82% think EOCs are more innovative than POCs
- 73% think EOCs are more motivating than POCs
- 85% would like to learn more about EOCs
- 69% think EOCs would grow faster and have less red tape than POCs
- 72% think POCs would outperform EOCs on the bottom line

Graduate Business Students:
- 77% said EOCs are more ethical than POCs
- EOCs were seen as equal to POCs for CSR
- EOCs were seen as equal to POCs for environmentalism
- 83% said EOC managers take fewer risks than POC managers
- 64% said there was less waste at EOCs than POCs
- 70% said more truth in advertising in EOCs
- 90% said EOCs were more motivating than POCs
- 59% said EOCs were more fair and transparent than POCs

College Business Faculty:
- Thought that EOCs and POCs were equally ethical overall
- 57% preferred to invest in POCs
- 68% preferred employment with EOCs
- No preference for EOCs or POCs for CSR, code of conduct or environmentalism
- POCs had better governance (60%) and better efficiency (58%)
- EOCs had more fairness in HR policies (82%) and more motivating workplaces (75%)
- 71% said POCs had greater executive risk taking
### Table 2
**Survey Results for Business Samples**

**EOC Employees:**
- 66% felt that EOCs were more ethical than POCs
- 57% thought that EOCs had more transparency and accountability
- 34% thought that POC companies would have better corporate governance practices
- 32% thought that EOCs would have greater levels of efficiency, resource utilization and productivity than POCs
- 74% thought that POCs would have greater commitment to environmental practices than EOCs
- 65% thought that EOCs would have greater levels of CSR than POCs
- 61% thought that POCs would have more equitable human resource practices than EOCs

**POC Employees:**
- 36% felt that EOCs were more ethical than POCs
- 58% thought POCs had more transparency and accountability
- 87% thought that POC companies would have better corporate governance practices
- 70% thought that POC managers would take more risks than EOC managers
- 63% thought that EOCs would have greater levels of efficiency, resource utilization and productivity than POCs
- 51% thought that POCs would have greater commitment to environmental practices than EOCs
- 54% thought that POCs would have greater levels of CSR than EOCs
- 73% thought that POCs would have more equitable human resource practices than EOCs
Table 2
Survey Results for Business Samples
Continued

Customers:
- 70% felt that EOCs were more ethical than POCs
- 62% thought that EOCs had more transparency and accountability
- 59% preferred to buy from an EOC
- 85% thought that POC companies would have better corporate governance practices
- 76% thought that EOCs would have greater levels of efficiency, resource utilization and productivity than POCs
- 90% thought that POCs would have greater commitment to environmental practices than EOCs
- 60% thought that EOCs would have greater levels of CSR than POCs
- 79% thought that POCs would have more equitable human resource practices than EOCs
Table 3

Comments from University Samples

Undergraduate Comments:
- “Publicly owned companies have better financial support.”
- EOCs are associated with a “good perception” while POCs are associated with a “bad perception”
- “POCs have a longer history of success and EOCs need strong leadership and vision, without it they won’t last”

Graduate Comments:
- “All businesses have ethical dilemmas. It is just a matter of if and how they can cover it up.”
- “Any company will do what it has to to stay in business. I am not sure if EOCs are POCs are more ethical.”
- “I would think that EOCs led by the founder of the company would be the most ethical type of setup because those people have the most invested and the most to lose in a business situation.”

Faculty Comments:
- “Both types can have their advantages. EOCs have more cohesion and employee commitment typically, while non EOCs have greater outside influences and probably less loyalty to the company founder or leaders.”
- EOCs are associated with “local orientation”, “more motivated employees”, “profit sharing”, “empowering the workplace”, “more responsibility and incentives”, and “build your piece of the business”
- POCs are associated with “sales maximizers”, “higher salaries”, “diversity”, “bottom line: money is all that counts”, “less opportunity for workers”, “less commitment” and “more about the shareholder”
Table 4

Comments from Business Samples

EOC Employee Comments:
- “The fact that I am an employee owner motivates me at work to do my best to grow the company.”
- “I believe that EOCs have superior ethical practices when compared to POCs.”
- “EOCs must self monitor therefore they hold themselves to a higher standard than POCs.”

POC Employee Comments:
- “I like the fact that my company offers public stock. I feel safer with this setup. I feel there is more oversight than there would be in an employee owned company.”
- “Because we are a public company, the public can see what we do. Therefore we have to be totally ethical in all of our dealings.”
- “I think the private companies can have some benefits, but these would dissolve once the company reached a critical size. If an EOC can stay small, it could work. Otherwise, you lose the benefits of being small and knowing everyone in the company.”

Customer Comments:
- “It does not matter to me which type a company is. I look for quality and service in what I buy.”
- “I would think pride, customer service and workmanship would be better for the employee owned companies.”
- “I trust large companies that are publicly traded. I think they are too big to fail.”
Table 5

Ethical Issues Ranking Preferences

Scale: 1 = Most Important/10 = Least Important

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LEGEND:
UG = undergraduates
GR = graduate students
BF = business faculty
EE = employee owned company employees
PE = publicly owned company employees
CU = customers of employee owned and publicly owned companies