

# The Relationship between Business Ethics Practices and Organizational Performance in Human Resource Management: The Case of the Fortune 500 Turkey

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**Abstract:** Performing all organizational functions within the framework of business ethics principles is an important necessity. However, performing human resource management (HRM) function towards business ethics principles has more special importance. Because HRM function aspires to motivate employees, it may enrich organization towards organization purpose. To reach this purpose, all politics and applications of HRM should be implemented based on business ethics principles such as justice, equality of opportunities, and accuracy. Because of this, performance level of organizations which can provide this is expected to be high. From this point forth, this study aims to exhibit the relationship between organizational performance and business ethics level on basic functions of HRM.

**Key Words:** Ethics, Business Ethics, Functions of Human Resource Management, Organizational Performance.

## The Concept of Business Ethics

The issue of ethics in organizations dates back to first organizations (De George, 1987; Donaldson, 2001; Özgener, 2004). Accordingly, the concept of business ethics is relatively new compared to ethics (De George, 1987). Along with the process of globalization, business ethics has emerged as a hot topic both in the business and academic world (Bennington, 2007; Spence, 2000). Managers' belief that ethical policies would contribute to the long-term success of organizations have brought ethics to the fore (Tekinay, 2003).

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Business ethics is an interdisciplinary academic field of study (De George, 1987), however this feature also makes it controversial. For this reason, there is no consensus among researchers as to the adaptation of the concept to organizational practices and the resolution of ethical dilemmas (Ferrell, Fraedrich, & Ferrell, 2008; Mauro, Natale, & Libertella, 1999).

Business ethics tries to find answers to such questions as what behaviors are acceptable or unacceptable for a good working life (Ferrell et al., 2008; Sintonen & Takala, 2002) within the framework of a reciprocal relationship between ethical principles and organizations (De George, 1987). According to the definition of Svensson and Wood (2003), business ethics is the pursuit of understanding what can be considered acceptable about the activities of organizations operating in a particular culture at a particular time.

## **Relationship between Human Resource Management and Business Ethics**

Factors such as the growth of organizations' sizes and their influences, global competition, changing values, reduction of state intervention in the working life, modifications to laws governing the rights of employees, increase of employee's employment in third world countries and reduction of unionization in industrialized countries have made the relationship between HRM and business ethics highly popular (Greenwood & De Cieri, 2007; Wooten, 2001). Since 1990, over 4500 books and articles have been published in business ethics. However, a very small portion of these publications has elaborated on the relationship between HRM practices and ethics (Wells & Schminke, 2001).

Few studies discuss 'ethics in HRM' at a micro level via individual or holistic applications and question employee's rights and responsibilities in terms of business ethics (Winstanley & Woodall, 2000). In studies conducted at a macro level, the relationship between HRM and performance, as well as classification of HRM practices are focused on to open an ethical debate on HRM practices (Greenwood & De Cieri, 2007).

HRM has undertaken a strategic role in the recruitment and orientation process, teaching and adopting codes of ethics in all training and development activities, and transferring these skills into behavior (Saylı & Kızıldağ, 2007, p. 232).

Business ethics require organizations to be respectful and fair towards their employees, and to value them as human beings, outside their identities

as employees, in accordance with ethical principles (Aktan, 1999; Arslan, 2001). With this in mind, HRM must bear ethical values and make them integral elements of the workplace (Akgeyik, 2009, p. 299).

### **Ethical Principles in Human Resource Management**

According to Legge (2000), the relativity of postmodernism and its emphasis on differences create a paradox in the creation of universal ethical principles. Therefore, postmodernism provides different aspects in the possibility of common ethical principles, attitudes and practices.

Discussions tend to accept that the ethical framework in HRM could be formed by the principles of equal opportunities, justice and fairness (Akgeyik, 2009; Danley, Harrick, Schaefer, Strickland, & Sullivan, 1996; Greenwood, 2002; Woodall & Douglas, 2000).

### **Ethical Issues in Human Resource Management Functions**

According to Scott, selection and placement, training and development, and retaining and motivating employees are the four basic functions of HRM. Another necessary function is related to the dismissal of employees when necessary. According to another study, personnel selection, training and development, performance appraisal and compensation are the most widely practiced functions of HRM by organizations (Batt, 2000 cited in Akdemir, 2004).

Various studies have been carried out in Turkey to determine the status of organizations in this respect. One study has revealed that big scale organizations in Turkey fulfill the following functions, respectively, HR supply and selection, compensation management and HR training and development (Özdemir, 2009).

### **Relationship between Business Ethics Practices in Human Resource Management and Organizational Performance**

HRM functions promote positive and constructive behavior and justice, thus positively affect organizational performance (Berenbeim, 2010; O'Higgins & Kelleher, 2005; Wu, 2002).

Berrone, Surroca, and Tribo (2007) note that if there is harmony between the ethical activities of organizations and the expectations of stakeholders, stakeholder satisfaction level will rise. Albayrak's (2009) study dem-

onstrates that there is a significant relationship between the employees' perceptions of ethical HRM practices and motivation levels.

Organizations that raise their employees' levels of motivation and satisfaction with ethical HRM practices will be able to increase efficiency through these efforts. In a study that supports the validity of this assumption, organizations that are honest and fair towards their employees and consistently develop HRM practices received higher scores in the Fortune Corporate Reputation Index, which lists businesses operating in accordance with the principles of good governance (Buckley et al., 2001).

It would not be wrong to think there will be a significant difference between the performance levels of organizations which resort to ethical principles and those that do not. This study will try to shed some light on this relationship that has been supported by a limited number of studies so far.

## Method

The survey was mailed to HR managers' company addresses. Some HR managers were contacted by phone and were asked to participate in the study. Those who responded affirmatively were sent the questionnaire via e-mail. The questionnaires were sent to the population, which consists of a total of 489 businesses. In addition, to increase the return of the questionnaires, the e-mail messages were repeated at different times.

The data acquisition phase took place between the 1st November and 5th December 2011, and then 136 questionnaires were returned. 4 of the questionnaires were excluded due to incompleteness. The ratio of return was 27% (Number of questionnaires sent / number of usable questionnaires). SPSS 19.0 statistical software was used to analyze the collected data.

The data were found to have a normal distribution and accordingly independent two-group t-test and one-way ANOVA analysis were employed to test the sub-hypotheses. Correlation analysis method was applied to test the main hypotheses. Correlation analysis was used to determine degree of the relationship between two variables. The correlation analysis calculates the correlation coefficient which is indicated by  $r$ , and can take values between -1 and +1 (Altunışık et al., 2004, pp. 197-198). The correlation coefficient may be defined as "very weak (0.00 to 0.25), weak (0.26 to 0.49), moderate (0.50 to 0.69), high (0.70 to 0.89) and very high (0.90 to 1.00) (Köse, 2011).

## ***Sampling and Procedures***

The population of the study consists of 489<sup>\*</sup> private companies that are published in Fortune Magazine's "Fortune 500 Turkey" list as of 2008 (Fortune, 2008). Fortune 500 Turkey's largest companies list includes manufacturing, trade, services and construction sectors and organizations in this list are ranked according to their sales turnover.

In the first part of the questionnaire, HR managers are asked 6 questions related to their demographic characteristics. The second part of the questionnaire includes statements to determine the fulfillment level of business ethics in HRM. This chapter includes statements that have been created through a two-stage process: the first stage is the review of literature, and in the second stage, publicly announced codes of ethics of the first 192 private organizations of the population have been analyzed for the HRM content.

The analysis of 192 web sites reveals that only 70 of them have declared their code of ethics. However, 15 of these organizations have not published it on their web sites although they have ethical codes. On the same web-sites, these organizations announce that the ethical codes are shared with employees. The frequency analysis of the organization's code of ethics by examining the contents of 55 organizations yielded important data for the creation of the second part of the questionnaire. Following this, 24 statements in the second part of the questionnaire were formed in the light of the research findings and discussions in the literature. The level of business ethics in four sub-scales, namely personnel selection and placement, training and development, performance evaluation and compensation management have been measured with 6 statements each.

The last part of the questionnaire, however, consists of statements designed to measure the performance of participating organizations. In this study, measurement of performance has been analyzed with Kaplan and Norton's four BSC perspectives (1992; 2000). As a result of the literature review, four statements have been devised for four dimensions (finance, customer, internal process and learning and development). Participants were asked to respond to the 5-point Likert scale statements.

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\* As of 2008 "Fortune 500 Turkey's Largest Companies" list has 11 state owned enterprises, which have been excluded from this research.

### ***Pilot Findings***

The pilot work was carried out between 10 and 30 October 2011. The survey was e-mailed or delivered to 627 businesses operating in Kocaeli province and which are outside the population of the research. As a result, 108 questionnaires returned, but three of them were excluded due to incompleteness. The data was analyzed using SPSS 19.0 statistical software.

The reliability of the scales was analyzed with internal consistency (Altunışık, Coşkun, Bayraktaroğlu, & Yıldırım, 2004, pp. 113-115).

Prior to the factor analysis, three methods are used to evaluate the suitability of the data for analysis, correlation matrix, Bartlett test, and the Kaiser-Meyer-Olkin (KMO) test. KMO test has been widely used (Ahmed & Çevik, 2003, p. 417). The test value is perfect for 0.9, very good for 0.8, good for 0.7, moderate for 0.6 and unacceptable for below 0.5 (Tavşancıl, 2002, p. 50).

As a result of the analysis, the 1<sup>st</sup> and 5<sup>th</sup> statements in the personnel selection and placement scale were removed due to their low values (below 0.5). After this adjustment, the internal consistency of these 22 statements rose up.

The factor loadings of the statements are expected to be .45 in the factor analysis (Balci, 1995, p. 142). To comply with this principle, 4 statements were taken out of the scale and the remaining 18 statements were exposed to a second factor analysis.

The scale of business ethics practices in HRM explain 68.745%, and the organizational performance scale explain 86.388% of the studied feature. The bigger the variance ratios obtained as a result of factor analysis, the stronger the factor structure. For social sciences a ratio of 40% to 60% is considered to be sufficient (Tavşancıl, 2002, p. 48). Accordingly, the variance ratios of the two scales appear to be adequate.

### ***Research Findings***

Distributions for the demographic characteristics of the participants were as follows: more than half of the respondents (56.8%) were female. 45.5% of the respondents were of 30-39 years of age. 54.5% of the participants were BA holders and 54.5% of them were working for 1-5 years in the company. 51.5% of respondents were working in the HRM department of the organizations for 1-5 years. 38.6% of participants were working for 1-5 years in the field of HR.

According to the results of analysis, there is a high positive correlation between business ethics practices in HRM and organizational performance ( $r = 0.77$ ). Business ethics practices are also positively correlated with customer performance ( $r = 0.71$ ), internal process performance ( $r = 0.71$ ), learning and development performance ( $r = 0.77$ ) and financial performance ( $r = 0.56$ ). As predicted in the study, ethical HRM practices are positively correlated to organizational performance. What is interesting is the weakest correlation of ethical practices is with the financial performance.

There is a positive moderate correlation between business ethics practices in personnel selection and placement functions and organizational performance ( $r = 0.53$ ). The strongest correlation between personnel selection and placement and other sub-scales of the organizational performance is with learning and development ( $r = 0.56$ )

The business ethics practices in training and development function is moderately correlated to organizational performance ( $r = 0.53$ ). The organizational performance is most strongly correlated to learning and development ( $r = 0.63$ ).

Business ethics practices in performance appraisal and career management functions have a high positive correlation with organizational performance ( $r = 0.71$ ). In addition, the analysis shows that this function is most strongly correlated with internal processes function ( $r = 0.67$ ).

Business ethics practices in compensation management function is positively related to organizational performance ( $r = 0.74$ ). There is a strong relationship between the compensation management and learning and development ( $r = 0.75$ ) functions.

## Results and Discussion

Descriptive statistics demonstrate that participating organizations think the extent of business ethics practices taking place in HRM are above average (3.81). Participants tend to agree that HRM functions are carried out within an ethical framework. The results of the sub-scales are as follows: Participants express that personnel selection and placement function is conducted more ethically than other functions (4.18). It is remarkable and thought-provoking that the lowest mean value (3.33) is for compensation management function. Salaries and wages are the fundamental elements of the employee-employer relationship and therefore should be conducted

within an ethical framework. However, the rate is above the average, which does not indicate any severe problem. Yet the finding should be taken into consideration as it points out a need for revision of the policies and decisions.

According to the descriptive statistics of the organizational performance scale, the participants' perception regarding the performance of the organization is above the mean value of 3.64. This finding shows that the participants are overall satisfied with the organizational performance level. The highest sub-scale value belongs to customer performance (3.89), and the lowest value belongs to the learning and development performance. In other words, participants are least satisfied with the learning and development performance. Learning and development is a significant HRM function in organizational performance since it is related to the efficient use of information technologies, motivation of employees and improvement of their skills. In this regard, organizations need to focus on HRM activities to improve their performance in learning and development.

To sum it all up, all hypotheses developed regarding the relationship between business ethics practices and organizational performance have been accepted. One of the most remarkable results is the strong relationship between organizational performance and compensation management functions among other HRM functions. A similar study revealed that compensation management tends to affect the organizational performance most compared to other HRM practices (Liu, Combs, Ketchen, & Ireland, 2007). This could be explained with the fact that compensation management function can directly influence the motivation and satisfaction levels of employees. In addition, the main factor in the establishment of the employer - employee relationship is compensation and employees should have strong ethical perceptions towards their salaries for the effectiveness of this relationship.

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