



Codes of ethics, corporate philanthropy, and employee responses



Yong-Ki Lee^{a,1}, Joowon Choi^{b,2}, Bo-young Moon^{c,*}, Barry J. Babin^{d,3}

^a College of Business Administration, Sejong University, 209, Neungdong-ro, Gwangjin-gu, Seoul 143-747, South Korea

^b Department of Hospitality Management and Dietetics, Kansas State University, Manhattan, KS 66502, USA

^c Department of Sports and Outdoors Eulji University, 553 Sanseongdaero, Sujeong-gu, Seongnam-si, Gyeonggi-do 461-713, South Korea

^d Department of Marketing and Analysis, Louisiana Tech University, Ruston, LA 71272, USA

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ABSTRACT

Although ethical management would seem to be a must in today's business climate, research and practical applications in the services industry and in developing economies remain scarce. Hence, the purpose of this study is to investigate the effects of codes of ethics and corporate philanthropy on the Korean services industry. The results demonstrate that, overall, a code of ethics directly affects corporate philanthropy and organizational engagement. Corporate philanthropy, in turn, positively relates to employee engagement and turnover intention. Turnover intention is explained by job and organizational engagement. The strategic importance of ethics management and the following philanthropic activities in the hospitality services are illustrated from the findings of this research.

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1. Introduction

Good ethics is simply good business (Koonmee et al., 2009; Lantos, 2001). Socially responsible marketing firms act with the realization that their actions affect many stakeholders, including customers, employees and society at large (Madden-Hallett, 2009). All organizations sometimes face ethical scrutiny, even at times due to circumstances not entirely under their control. The Bhopal gas tragedy (1984) in India, the Exxon Valdez oil spill disaster (1989) and the Enron scandal (2001) give us lessons about the diversity of and potential ethical consequences associated with business environments.

Even a cursory examination of worldwide corruption indices (<http://cpi.transparency.org/cpi2012/results/>) suggests that weaker economies and lower standards of living tend to go along with high corruption. South Korea provides a case study of sorts given the remarkable transition from among the world's poorest countries in 1950 to one of the world's leading economic forces today. South Korea has been a G20 member since 1999. The Korean government promoted the growth of large corporations by subsidizing bank loans to provide capital at below market rates and providing discounted government land use, among other things

(Lee et al., 2009). South Korea's corruption index remains steady (ranked 45 out of 174 nations, those with low numbers enjoy less corruption) and various public scandals put some Korean businesses in an unfavorable light. Subsequently, Korean firms linked publicly with unethical behavior openly provide charity and support as public retribution for potentially ill-gotten "material gains." These acts also fight against a prevailing anti-corporation public sentiment (Lee et al., 2009).

Given the potentially deleterious consequences (Jose and Thibodeaux, 1999), many firms are attempting to institutionalize good ethics by establishing a formal code of ethics, credos, ethical values statement, and/or codes of conduct (Ki et al., 2012). Codes of ethics can play key roles in demonstrating the organization's moral concern, transmitting ethical values to organizational members, and impacting the ethical behavior of organizational members. If effective, an organization's ethical work climate improves and the firm can respond better to external demands and pressures from stakeholders (Raiborn and Payne, 1990; Wotruba et al., 2001). In addition, companies openly associate with social causes as a way of enhancing their reputation, which in turn, may produce positive effects on sales and market share (Papasolomou-Doukakis et al., 2005). Accordingly, corporate responsibility activities can be a source that helps a firm to create resources and capabilities from resource-based view (Branco and Rodrigues, 2006; McWilliams et al., 2006). Although the effectiveness of ethics codes have been mixed and controversial (Ki et al., 2012), it has become a fact in today's business world (Chonko et al., 2003). We believe that the adoption of a corporate code of ethics is particularly meaningful in South Korea where public displays strongly shape image.

* Corresponding author. Tel.: +82 31 740 7256.

E-mail addresses: yongki2@sejong.ac.kr (Y.-K. Lee), jwchoi@ksu.edu (J. Choi), bymoon@eulji.ac.kr (B.-y. Moon), bbabin@latech.edu (B.J. Babin).

¹ Tel.: +82 2 3408 3158.

² Tel.: +1 785 532 2213.

³ Tel.: +1 318 257 4012.

Ethics codes often encourage corporate philanthropy (CP) activities (Sharma et al., 2011; Wood, 1991). CP activities demonstrate corporate social responsibility (CSR). CP activities may even build competitive advantages and increase employee morale (Porter and Kramer, 2002) and commitment (Collier and Esteban, 2007). From this perspective, cause-related marketing strategies can be implemented through willingful employee participation (Liu et al., 2010). Such action enhances job and organizational engagement (Brammer et al., 2007; Lim, 2010) and decreases turnover (Lee et al., 2012a,b). Employees as internal customers then become leaders and encourage customers, suppliers, and community groups to communicate a firm's socially responsible message (De Bussy et al., 2003).

Service firms are particularly keen on creating an ethical image as they inevitably interact closely with customers. For a hospitality firm, the institutionalization of ethics manifests itself in the actions of its front-line service providers. Frontline personnel, including salespeople, are particular susceptible to ethical dilemmas due to conflicting demands that they routinely face in their boundary spanning roles (Babin and Boles, 1998; Dubinsky et al., 1986). Frontline employees who toil in a less than ethical work climate experience greater on the job conflicts, which in turn contributes to increased turnover (Levy and Dubinsky, 1983). An ethical work climate can be promoted through numerous means not the least of which is the adoption of codes of ethics and policies that promote a sense of responsibility among workers (Babin et al., 2000; Porter and Kramer, 2002).

Overall, very little is known about ethical governance in Korea or emerging economies. Lacking a more formalized approach including a code of ethics, some South Korean firms rely exclusively on a formalized whistle-blower system. Moreover, research about ethics and corporate responsibility in hospitality is still in its infancy. Very little hospitality research reviews issues related to codes of ethics (c.f. Coughlan, 2001; Payne and Dimanche, 1996). The purpose of this study is to examine the role played by explicit forms of codes of ethics and corporate philanthropy in changing the work environment among Korean service firms. In particular, the work sheds light on the link between formalized ethical procedures and employee responses including job engagement, organizational engagement and turnover intentions among service employees. This paper takes steps in bridging the research gap by grounding itself in the code of ethics and CP literature and providing empirical evidence of their outcomes. As such, the work offers an opportunity to develop theory in this important area and make practical recommendations for implementation.

2. Literature review

2.1. Codes of ethics

A code of ethics is a “written expression of an organization's ethical norms and values” (Valentine and Barnett, 2003, p. 359) providing useful guidelines for managerial policy and employee decision-making (Sims, 1991). The Code should influence decisions about all manner of issues including supervisor-employee behavior, customer treatment, consideration of societal concerns and public stakeholders, not the least of which deals with customer and public safety and welfare.

The need to institutionalize ethics is alluded to in Brenner's (1992) study saying that most ethics programs are implicitly inherent within the organizational culture, but are not explicitly developed. A code of ethics manifests itself in the form of policy manuals, formal ethics training and instructional materials, employee orientation programs, ethics audits and committees (Callan, 1992; Dean, 1992; Treviño and Nelson, 1995; Vitell and

Singhapakdi, 2008). Questionnaire and telephone survey targeting the top 200 Korean companies in 2009 showed that the key contents of formalized charters of ethics are compliance with internal standards of operation and regulations, followed by fair trade and legal compliance, social contribution, and then other things (KCCI, 2010). However, employees often are unaware of the existence or unfamiliar with the content of organizational codes of ethics (Wotruba et al., 2001). Hence, awareness of the code's contents can help in establishing explicit rules and guidelines for ethical behavior (c.f. Singhapakdi and Vitell, 2007).

Ethics-oriented corporations can be profitable. A corporate endorsement of high levels of ethical standards can be encouraged by developing a code of ethics. Sims (1991) pointed out that such codes of ethics not only help develop a CEO's commitment, but they also help retain public trust, stress managerial professionalism, encourage employees to abide by established laws and protect stakeholders against employee misconduct. A code of ethics should do more than espouse a minimally acceptable type of behavior to keep abreast of ethical global trends (Weeks and Nantel, 1992). Establishing a code of ethics, or at least the perception of ethical behavior, seems mandatory for public corporations.

2.2. Corporate philanthropy

According to social institutional theory, a firm is viewed as a “public institution sanctioned by the state for some social good” (Boatright, 2000, p. 248). As such, corporations, not just nonprofit institutions, exist to serve society in some way and to promote societal advancement (Carroll, 2009; Davis, 1983). Firms that do well from a marketing standpoint should also work to promote a fair and just marketplace.

CSR should generally meet four societal expectations: economic, legal, ethical, and philanthropic (Carroll, 1999). Among those, philanthropy derives from the Greek roots meaning “the love of humans.” A company's economic, legal, and ethical duties are mandatory, whereas philanthropic responsibility is voluntary and desirable (Carroll, 2009). As illustrated by Lantos (2001, p. 20), “If possible, do good.” A philanthropy-based company may work to minimize public problems (e.g., poverty, illiteracy, crime, underfunded educational institutions, chronic unemployment, environmental pollution) to improve societal welfare and enhance the quality of life (Brenkert, 1992; Jamali et al., 2008; Velasco, 1996).

In Korean culture, the notion of philanthropy resonates. Korean culture is seen as a “giving culture” captured in Korean by the word, “jeong,” which translated into English means affection and sharing for one another (Yang, 2006). In addition, collectivistic Confucianism prevails in Korea and values obligations to others over self-interest, and gives priority to harmony between group members (Markus and Kitayama, 1991; Miller, 1994; Yang, 2006). Miller (1994) refers to it as intrinsic benevolence, charity, and virtue.

Although CP is relatively new in Korea, dating back only about two decades (Lee et al., 2009), companies are embracing the concept by increasing charitable giving (Korea Herald, 2011). According to the Community Chest of Korea, total charitable giving from 2005 to 2010 was approximately 1.3 trillion won with 844 billion won (65%) given by Korean corporations (Korea Herald, 2011). As indicated above, some firms are trying to rebrand themselves by publically participating in CSR (Kahn et al., 2012). Others ignore the influence of social activities and solely focus on sales and profits (Flores, 2001). Despite rising public awareness, CP's impact on service firms specifically remains unexplored (Holcomb et al., 2007).

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