



Virtue in small business in small places: Organisational factors associated with employee dishonest behaviour in the retail sector



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ARTICLE INFO

Keywords:

Employee dishonesty
Estonia
Latvia
Retail
Workplace deviance
Location

ABSTRACT

The organisational factors associated with employee dishonest behaviour are understudied because dishonesty is sensitive topic and organisations are not willing to reveal misbehaviour to the wider public. This paper addresses this research gap by providing an empirical study on reporting of dishonest behaviour of retail employees in Estonia and Latvia. The aim of the paper is to find out how organisational factors affect the reporting of dishonest behaviour in retail sector. Local vs international retailers and rural vs capital city stores characterise organisational factors and these are analysed in different hypothetical scenarios: low wage, perceived injustice and boredom. The sample consists of 781 retail employees from six retail organisations. The study employed a survey with manipulated questionnaires. Some of the main findings are the following: employees in international retail chains and in stores located in capital cities deem dishonesty more prevalent compared to domestically owned shops and stores situated outside metropolises. However, employees outside capital cities were more sensitive to the motives, especially perceived injustice. Implications for retailers are discussed at the end of the paper.

1. Introduction

Employee dishonesty causes substantial distress for organisations in general (Gill et al., 2013), but the retail sector is particularly vulnerable: some authors suggest that retailers may even lose billions of dollars due to ‘inventory shrinkage’ (John et al., 2014, p. 101), including employee theft, which is the second major component of the loss (Moorthy et al., 2015). As much as 74% of dishonest actions in 2013 in the UK were performed by employees in direct contact with customers in retail outlets or stores (Employee Fraudscape, 2014, p. 31). These gloomy figures may partly be explained by the fact that retail jobs are relatively low-paid, often part-time and rather stressful (Whysall, 2008, p. 186).

In search of explanations for dishonest behaviours we rely on the approach taken by Kish-Gephart et al. (2010), which specifies three categories: individual factors (so-called bad apples), organisational factors (bad barrels) and specific situational factors (bad cases), with a special emphasis on organisational factors. Typically, the focus of research has been on an organisation's policies like compensation and control systems (Cherrington and Cherrington, 1983; Moorthy et al., 2015; Pierce et al., 2015; Pierce and Balasubramanian, 2015), or ethical infrastructure comprising code of ethics, justice, and behaviour

of leaders (Cherrington and Cherrington, 1983; Coyne and Bartram, 2000; Tenbrunsel and Smith-Crowe, 2008; Vadi and Vissak, 2013; Treviño et al., 2014; Moorthy et al., 2015). It is surprising that the ‘hard side’ of organisations such as ownership and location has not deserved attention. These factors form the ideology of an organisation (Trice and Beyer, 1993), which in turn, mould dominating behaviour patterns. We combine these organisational factors with situational ones; the latter deals with the type of situation where the most influential aspect is general moral intensity (Treviño et al., 2006; Kish-Gephart et al., 2010). The aim of the study is to find out how organisational factors affect the reporting of dishonest behaviour in the retail sector. ‘Small business’ in the context of this paper refers to domestically owned retailers which operate only locally, and ‘small places’ refer to towns and regions other than capital cities.

Retailing has attracted attention in the dishonesty literature, but the focus has predominantly been employee theft, see e.g. Tatham (1974), Terris and Jones (1982), Cherrington and Cherrington (1983), Jones et al. (1990), Chen and Sandino (2012) and Moorthy et al. (2015). Our study focuses on a wider spectrum of dishonest behaviours.

The paper begins with short conceptualisation of dishonesty and then examines its organisational determinants based on prior litera-

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ture. Thereafter, we introduce the methodological approach and sample. The paper concludes with the results and theoretical and practical implications.

2. Dishonest behaviour in retail

Based on the previous studies, the authors of this article have concluded that for a conduct to be regarded as dishonest, the following preconditions need to hold:

- a) Breaking general moral standards or rules that are accepted within a certain society, organisation or a group;
- b) The action is deliberate;
- c) Material or immaterial self-benefit occurs as a result of the given action;
- d) Harm has been caused or is potentially caused to a third party.

On the basis of the given preconditions, the authors have defined dishonest behaviour as *“deliberate conduct that breaks accepted norms in the society, organisation or any other social group, with an objective to make a material or immaterial benefit, as a result of which harm has been caused or may be caused to a third party”*.

The following categories of dishonest behaviour relevant in retailing are distinguished:

- Theft, including time theft;
- Deception, including lies and concealment;
- Sabotage.

Theft is the most studied category of dishonest behaviour. Corporate theft expressed as an appropriation of corporate material means is a problem that has been faced by most companies. However, such losses can be easily assessed and sooner or later detected by companies. A different situation persists in the *time theft* category of dishonest behaviour (sometimes called production theft) – a more latent and less accountable phenomenon that is present to a greater or lesser extent in any organisation (Robinson and Bennett, 1995; Kulas et al., 2007). The monetary value calculation of losses arising out of absence, longer work breaks, delays and time spent on social media is much more difficult. In the meantime, these offences are typical and present to a greater or lesser extent in any organisation.

The next category of dishonest behaviour – deception – contains lies and concealment. Lies are an active form, while concealment is a passive form of conduct. Lies are usually believed to be more subject to moral punishment than concealment, supposedly, for their active form. Deception in the context of employee dishonesty may be conducted towards the employer or customer.

The last discerned category of dishonest behaviour is sabotage. Theoretical sources distinguish different types of sabotage. A classical definition of sabotage conceptualises it as a deliberate destruction of the working environment (Analoui, 1995). Later studies of retail enterprises – having low-paid employees with a high staff turnover and in continuous contact with their customers – allowed the definition of sabotage to be developed by making it more concrete and applicable solely to dealing with unhappy customers (Harris and Ogbonna, 2012). In the current study, sabotage is defined by combining both definitions so that its operationalisation can include expressions of unfair behaviour such as damage to physical property, negative attitude towards clients and undermining corporate reputation. The self-benefit obtained from the sabotage is associated with the raised self-esteem and obtained higher status among the co-workers and/or fabricating justifications why the work cannot be performed as required.

3. Organisational factors determining employee dishonest behaviour

3.1. International vs local stores

We distinguish between international, i.e. retailers that have expanded cross-nationally vs local, relatively small retailers which operate in one country only. In our study, this is defined by the ownership: international retailers are 100% foreign-owned, whereas local retailers are predominantly domestically owned organisations.

There is not much research depicting individual outcomes of the internationalisation of companies, but existing evidence tells a rather dark story (Brannen and Peterson, 2009). The mechanism why organisational ownership may predict employee dishonest behaviour comes from two theoretical streams: equity theory and alienation theory. Companies that have expanded cross-nationally were probably well capitalised and they saw opportunities for further growth and profit abroad by exploiting economies of scale and/or scope. For a shop-floor employee an international company must seem large and wealthy (and more often than not, they are). This is important because “... ethical decision making is not always rational and deliberative but can also be affective, intuitive and impulsive” (Treviño et al., 2014, p. 638). Moore and Gino (2015) state that in moral judgements non-deliberative processes are at least as much in play as rational ones. Gino and Pierce (2009) demonstrate that the presence of abundant wealth provoked feelings of envy that led to cheating. Indeed, the organisation that is (perceived to be) profitable, may in itself be a justification for dishonest acts. Wang and Kleiner (2005) suggest that employees’ perceptions of profitability may bring out the feeling of deserving some of the profit, which in turn is a common rationale behind employee theft.

Alienation theory predicts that “...cultural and geographic separation should create problematic disconnectedness and social isolation” (Brannen and Peterson, 2009, p. 485). In foreign located subsidiaries, the problem of cross-cultural work alienation may be more acute because expatriate managers apply unfamiliar organisational norms that locals do not understand. Thus, local employees feel little power to influence strategic decisions, with the structure of the organisation being centralised and formalised because of external control. Alienation of employees is typically associated with negative attitudinal and behavioural consequences, but so far there is no evidence of the increase or decrease of dishonest behaviour specifically.

Conversely, the structure of international companies may indicate fewer opportunities for dishonest behaviour. Subsidiaries as part of large corporations exerting control over them probably have more rules and regulations (Mintzberg, 1980), including ethics codes, compared to smaller local businesses (Spence, 1999; Russo and Tencati, 2009). Due to less autonomy and higher resource dependence subsidiaries need to be accountable to their parent company and monitoring of employees may be stricter. All this may reduce employee dishonest behaviour (Stevens, 2008; Moorthy et al., 2015; Pierce et al., 2015). It is also worth noting that working for a well-known international company is more prestigious, partly because it enables wider career opportunities. If one values the current employer, the psychological cost of getting caught for dishonest acts increases. In the empirical part we study the extent to which employees expect their colleagues to act dishonestly instead of actually occurring dishonest behaviour. Therefore, all the subsequent hypotheses are formulated via projection of dishonest behaviour. Here, two alternative hypotheses are set:

H1a. Employees in international stores project more dishonest behaviour compared to respondents in local stores.

H1b. Employees in international stores project less dishonest behaviour compared to respondents in local stores.

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