Institutionalisation of Ethics: Perceptions of Workers in Construction Companies

Vrolijk, M.H.
Economic Institute for Construction and Housing, The Netherlands
(email: mvrolijk@eib.nl)
van der Vlist, A.J.
Department of Economic Geography, Faculty of Spatial Sciences, Rijksuniversiteit Groningen, The Netherlands and Economic Institute for Construction and Housing, The Netherlands
(email: a.j.van.der.vlist@rug.nl)

Abstract

Construction companies face public scrutiny as various unethical practices have come to light. This raises the question what construction companies do to prevent, detect and correct unethical conduct. To date, there are various studies regarding the institutionalisation of ethics in companies. To the best of our knowledge, little is known about the institutionalisation of ethics within the construction industry. To examine the institutionalisation of ethics in construction companies, data from a 2008 cross-section of 132 company executives and 194 lower-level employees from 132 Dutch construction companies are used. In this paper, we present the results of a first stage of our study. We examine the differences in perceptions between company executives and lower-level employees regarding the embeddedment of ethical culture qualities and ethics program components within the organization. The results indicate that company executives more often perceive ethical culture qualities and components of ethics programs embedded in the organization as opposed to lower-level employees. Regardless the differences in perception, the results also indicate that some ethical culture qualities are more visibly embedded than others are. The existence of components of an ethics program also varies. From a managerial and scientific point of view the results raises new questions about which approach contributes the most to the institutionalisation ethics and whether different approaches may be required for different types of organizational members.

Keywords: business ethics, ethical culture, ethics program, executives, employees

1. Introduction

Corporate conduct has captured the attention of the public in today's business environment. Without exception, construction companies also face public scrutiny. The literature have documented various cases which illustrate the ethical and moral difficulties of construction companies (FMI/CMAA, 2004; Glass and Simmonds, 2007; Ho et al. 2004; Kolk and Pinkse, 2006). By establishing internal control mechanisms, incentives and organizational schemes companies attempt to institutionalise ethics in order to prevent, detect, and correct unethical conduct.

To date, there have been various studies regarding the institutionalisation of ethics in organizations, documenting the scope and reasons for specific organizational efforts (e.g. Center for Business Ethics, 1986 and 1992; Robertson and Schlegelmilch, 1993; Soutar, McNeil and Molster; 1995; Nakano, 1997; Weaver, Treviño and Cochran, 1999a; Guillén, Melé and Murphy, 2002; Singh, 2006).

To the best of our knowledge, little is known about the institutionalisation of ethics within the construction industry. This study intends to fill this gap. Using data from a 2008 cross-section of 132 company executives and 194 lower-level employees from 132 Dutch construction companies we examine in this first stage of our study the differences in perceptions between company executives and lower-level employees regarding the embeddedment of ethical culture qualities and ethics program components within the organization. For organizations to effectively institutionalise ethics, it is relevant to know whether organizational members are aware of the internal control mechanisms, incentives and organizational schemes that contribute to the prevention, detection and correction of unethical conduct.

The contents of this paper is as follows. First, the ways of institutionalising ethics are presented. Second, the survey and descriptive statistics of the sample are discussed. Next, the empirical results are presented. Finally, conclusions, implications for management and directions for future research are discussed.

2. Institutionalising ethics

The institutionalisation of ethics can be defined as the incorporation of ethical values (Center for Business Ethics, 1986) into all daily decision making and work practices (Weber, 1993) for all organizational members (Weaver, Treviño and Cochran, 1999a).

Ethical values can be institutionalised within organizations in a variety of ways. These ways can be labelled as informal, implicit, or soft controls on one side and formal, explicit, or hard controls on the other (Brenner, 1992; Treviño, Weaver and Reynolds, 2006; Kaptein, 2009). In this study, the terms informal and formal are used. Informal ways refer to the ethical culture of organizations whereas formal ways refer to the existence of an ethics program within the organization.

Generally, organizational culture includes the values, norms, and experiences in the organization. The organizational culture provides the rules of conduct and ways of viewing the world outside and inside of an organization, giving guidance to people's behaviour (Champoux, 2001). Ethical culture can be defined as "a slice of the organizational culture that influences employees' ethical behaviour" (Treviño, Weaver and Reynolds; 2006:966). Various aspects of the ethical culture can foster ethical behaviour and practices. Kaptein and Wempe (2002:251-256) identified seven qualities which organizations can embed in the organizational culture that encourage employees to engage responsibly when faced with ethical dilemma's: (1) clarity, the extent to which the organisation's expectations of ethical employee behaviour are accurate, concrete and complete; (2) consistency, the extent to which the organization's expectations of employee behaviour are coherent; (3) achievability, the extent to which the organization enables employees to meet the expectations; (4) supportability, the extent to which the organization stimulates employee commitment; (5) visibility, the extent to which employee conduct and the effects thereof are manifest; (6) discussibility, the extent to which ethical issues can be raised and discussed; and (7) sanctionability, the extent to which ethical behaviour will be rewarded and unethical conduct will be punished. An ethical culture can support ethical conduct or frustrate it. The manner in which organizational members respond to ethical concerns will create a value pattern towards either ethical or unethical conduct (Sims, 1991; Weber, 1993; Valentine, 2009). As a consequence either one of these orientations will become institutionalised over time.

As indicated, next to an ethical culture organizations may have an ethics program. Ethics programs are the formal systems of organizational control on ethical conduct. Generally, organizational control systems can be used to coerce behavioural compliance or by generating employee identification with organizational goals (Weaver and Treviño, 1999). An ethics program may have adopted one of these orientations. An ethics program may consist of various components. This study includes some of the frequently cited components of an ethics program: (1) a code of ethics; (2) an ethics officer or ethics office; (3) ethics training; and (4) a dedicated reporting system (Kaptein, 2009). Ethics programs may support or frustrate ethical conduct. To be effective, the components of an ethics program should be mutually consistent and founded on or express shared values (Laufer and Robertson, 1997). Stansbury and Barry (2007:239) argue that "the control cultivated by ethics programs may weaken employees' ability and motivation to exercise their own moral judgement, especially in novel situations."

To the extent that an ethical culture and an ethics program are embedded in the organization, ethical values are expected to be more institutionalised and in turn, unethical corporate conduct is expected to be rarer.

3. Method

The data comes from a questionnaire held in the second half of 2008 among Dutch contractors, registered at Cordares Pensions. These data were part of a larger omnibus questionnaire that contacts companies and employees on an annual basis. The population includes both real estate construction firms and firms specialized in civil engineering. The 2008 population comprise 7.022 firms with 125.761 employees measured in terms of full time equivalent (fte).

The data were gathered using computer assisted face-to-face interviews (CAPI) with company executives and lower-level employees. The use of CAPI mitigated problems of social desirability bias and interviewer bias (Malhotra and Birks, 1999). We retained Veldkamp TNS NIPO, an independent market research firm, to administer the interviews. After receiving a written announcement, Veldkamp TNS NIPO contacted 2.145 company executives by phone and visited 2.458 lower-level employees at their home. If contact was being made, these individuals have been questioned whether they wanted to participate in the research. 965 company executives and 1.012 lower-level employees reacted positively and have been interviewed later. Interviews with company executives were conducted at their company office. These participants received a research report for their participation. Interviews with lower-level employees were conducted at their home to safeguard privacy. These participants received a 5 euro gift certificate for their participation. For this study, company executives and lower-level employees responding to the questions and working for the same company were selected. The data were matched by company-id. The resulting sample contains 132 company executives and 194 lower-level employees. The construction companies are each represented by one company executive.

Table 1 presents characteristics of the data with company profile on the left hand side and employee characteristics on the right hand side. Regarding the construction companies, 78 percent were specialized in real estate construction and 22 percent in civil engineering. The companies involved in the industry represented a variety of activities. Average business size was 178.7 persons. Regarding the employees, 94.8 percent were men, average age was 43.5 and roughly 60 percent were operatives. The sample obtained does not fully represent the population in each aspect. The sample under-represents small firms, yet over-represents large firms measured in the number of employees.

Table 1: Sample characteristics

Company characteristics (N=132)		Employee characteristics (N=194)	
	Percent		Percent
Sector		Gender	
Real estate	78.0	Male	94.8
Civil engineering	22.0	Female	5.2
Primary activity		Age	
New residential construction	39.4	Under 20	0.5
New non- residential construction	25.8	20-24	6.2
Building renovation and maintenance	12.9	25-29	9.8
Roads	14.4	30-34	9.2
Civil concrete structures	3.0	35-44	23.7
Telecommunications, energy and water	3.8	45-54	26.8
Other civil engineering	0.8	55 and above	23.7
Size (# of employees)		Functional area	

Fewer than 10	5.3	Operatives	63.4
11-20	14.4	Foremen	19.1
21-50	22.0	Clerical, technical and office staff	17.5
51-100	15.9		
More than 101	42.4		

4. Results

4.1 Ethical culture

Table 2 shows the mean (M) and standard deviations (SD) of the respondents' perceptions of ethical culture qualities embedded in their organization. Means of company executives and lower-level employees have been compared. One-way ANOVA tests determined the significance level (Sig) of the hypothesis of equality of the means in the two subpopulations.

The variables used to describe the perceived ethical culture of an organization are based on the seven ethical culture qualities as defined by Kaptein and Wempe (2002). A three-point Likert type scale ranging from "1 = disagree", "2 = partly disagree/partly agree" and "3 = agree" was used. Prior to analysis, items were recoded to dummy variables. The options 1 and 2 were recoded to 0 and the option 3 to 1 as this study defines ethical culture as a quality that persists over time and exists as part of the daily functioning of the organization. Next, the items were summed and a dummy variable was created where the sum of items was recoded to 0 if the sum was 4 or lower, and to 1 if the sum was 5 or higher.

Overall, company executives more often perceive ethical qualities embedded in the organization compared to lower-level employees. Except for the variable of sanctionability, all variables show significant differences. Regardless the differences, in the eyes of company executives and lower-level employees clarity and consistency were among the top qualities of ethical culture embedded in the organization. About one third of the company executives and lower-level employees indicated sanctionability as least embedded within the organizational culture. Respectively, 68 and 51 percent of the company executives and lower-level employees indicated at least five of the seven ethical culture qualities embedded in their organization.

Table 2: Mean perceptions of ethical culture qualities embedded in organization

	Company executives (N=132)		Lower-level employees(N=194)		Sig[1]
Variable	M	SD	M	SD	
Dummy clarity	.87	.34	.69	.46	.00***
Dummy consistency	.88	.33	.71	.46	.00***
Dummy realizability	.79	.41	.65	.48	.01***
Dummy supportability	.80	.40	.70	.46	.03**

Dummy visibility	.70	.46	.56	.50	*.01***
Dummy discussibility	.76	.43	.59	.49	*.00****
Dummy sanctionability	.36	.48	.32	.47	*.41*
Dummy ethical culture	.68	.47	.51	.50	*.00****

[1] * Significant at 10%, ** significant at 5%, *** significant at 1%

4.2 Ethics programs

Company executives and lower-level employees were also asked to indicate the existence of four different components of ethics programs in their organization (e.g. code of conduct, ethics training, ethics office or officer, dedicated reporting system). Again, mean, standard deviations and significance levels are depicted (see table 3).

A response scale from "0 = does not exist", "1 = exists" and "999 = unsure / no opinion" was used for each component. Following Kaptein (2008) the option 999 was recoded to 0 (non-existent) as this study defines ethics programs as a formal system. A dummy variable was created if any of the components were present in an organization.

Compared to lower-level employees company executives more often indicated the existence of a component of an ethics program in their organization. All variables show significant differences. Regardless the differences, both company executives and lower-level employees indicated a 'code of conduct' or 'ethics office(r)' as the most implemented components of an ethics program. About one third of the company executives indicated the existence of an 'ethics reporting system' or 'ethics training' within the organization. For lower-level employees the latter was least visibly embedded. Respectively, 82 and 62 percent of the company executives and lower-level employees indicated the existence of at least one of the four studied components of an ethics program in their organization.

Table 3: Mean perceptions of existent components of ethics programs within the organization

	Company executives (N=132)		Lower-level employees (N=194)		*Sig[1]*
Variable	*M*	*SD*	*M*	*SD*	
Dummy code of conduct	.55	.50	.36	.48	*.00****
Dummy ethics training	.34	.48	.10	.30	*.00****
Dummy ethics office(r)	.54	.50	.37	.48	*.01****
Dummy ethics reporting system	.34	.48	.24	.43	*.03***
Dummy ethics program	.82	.39	.62	.49	*.00****

[1] * Significant at 10%, ** significant at 5%, *** significant at 1%

5. Conclusion, discussion and implications

In this study we surveyed company executives and lower-level employees in 132 construction companies. In the first stage of our study we examined the differences in perceptions between company executives and lower-level employees regarding the embeddedment of ethical culture qualities and components of an ethics program within the organization.

The results indicate that some ethical culture qualities are more visibly embedded than others. The existence of components of an ethics program also varies. Nevertheless, more than half of the respondents indicated at least five of the seven ethical qualities embedded in their organization and at least one of the four studied components of an ethics program. If different qualities and components are adopted, management needs to know what works best to prevent, detect, and correct unethical conduct. This raises the question what determines the adoption of certain qualities or components to vary. And more importantly, what is the relationship between the adoption of certain qualities or components and the ethical values being institutionalized? In the next stage of our study, further analysis will take into account company characteristics and will also be focused on specific behavioural principles in practice.

Comparisons between company executives and lower-level employees indicate that company executives more often perceive ethical culture qualities and components of ethics programs embedded in the organization as opposed to lower-level employees. These findings are consistent with previous research. Differences in roles and their corresponding identification may explain these different perceptions (Callan, 1993; Harden-Fritz *et al.*, 1999; Treviño, Weaver and Brown, 2008). As Treviño, Weaver and Brown (2008) argue, the possibility of differences in perceptions should be taken into account by company executives in order to make sound decisions about the management of ethics. The differences in perceptions between company executives and lower-level employees raises also new questions. Can we expect to see differences in perceptions regarding specific ethical values being institutionalised and in turn, the perceived occurrence of unethical conduct? If so, the differences in perceptions may imply that for management to effectively institutionalise ethics, different approaches may be required for different types of organizational members. In the next stage of our study, further analysis will take the differences in perceptions between company executives and lower-level employees into account.

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