

The Influence of Corporate Ethical Codes of Conduct on the Production of Quality Products among Pharmaceutical Companies in Nigeria

Fidelis A. Ayatse, Ph.D.

Department of Business Management

Federal University of Agriculture, Makurdi- Nigeria

*Email of the corresponding author: ayatsefidelis@yahoo.com

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 in the industry, and this change has been highlighted by the media. This trend presents pharmaceutical companies as well as NAFDAC with a challenge to ensure that ethical behavior and ethical decision making are evident to those both inside and outside the industry. This study used a sample of 280 managers drawn from pharmaceutical companies listed on NSE using a random sampling technique. Based on the findings and conclusions, the study thus recommends that managers of pharmaceutical companies should ensure that their firms have written code of ethics that crystallizes the basic rules, standards and behaviors necessary to achieve production of quality products in the industry.

Key words: Corporate ethical codes, adherence to code of conduct and quality products.

1. Introduction

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 ethics through codes of conduct (Nwachukwu, 2004). Other firms utilize ethics training to ensure that their employees are aware of the organizations expectations.

In today's competitive business environment, a corporate code of ethics according to Okpara (2003) should serve as the foundation upon which employees make decisions based on honesty, integrity, confidence and trust. A written code of ethics provides employees with an understanding and knowledge of what their organizations expect from them in terms of responsibilities and behavior. A code of ethics to Velasquez (2006) reflects corporations' standards and established realistic modes of behavior that applies to everyone in the company, from the board of directors to the newest employee. According to Nwachukwu (2004), a code of ethics is important because it provides visible guidelines, stability to an organization, and a point of focus for everyone in the organization. The reputation of an organization and its actions reflect the ethical conduct that affects its potentials for profit and growth. All levels of employees need to be aware of company policies regarding ethics in order to make the right decisions in difficult business situations, to know how and when to seek help when faced with ethical dilemmas, and to know where to report possible unethical conduct.

Several researchers (Carson, 2003; Chang, & Ha, 2001; Donaldson & Dunfee, 1994; Dubinsky & Loken, 1989., Lovell, 2002; and Warren, & Tweedale, 2002) have attempted to measure the growth of ethical standards in various countries. One of the more significant attempts consists of articles published in the special edition of the Journal of Business Ethics in October 1997. Blackwell's Encyclopedic Dictionary of Business Ethics (Werhane & Freeman, 1997) provides summaries of ethical standards from nearly every continent. In this regard, increasing number of organizations, of all types, are now publishing a code of conduct that sets out the professional standards required of members. This is very common in the United States of America, Canada, Germany, France, and Britain. In Nigeria most oil companies and ASUU have code of conduct manuals for their employees (Nnadi, 2008).

Unethical behaviour in organizations has caused damage or injury to millions of investors and organizational stakeholders. Globally, the situation in the United States of America and Europe is not in any way different from other parts of the world. In the USA, a legislative response to a series of corporate scandals eventually led to the release of the Sarbanes-Oxley Act of 2002, otherwise known as SOX. The Act requires a higher performance standard for business firms (England, 2006).

The rising incidence, in recent years in Nigeria, of sub standard production of products among the pharmaceutical companies has been a very big issue. Sub standards and unwholesome products produced through unethical means in the industry proved a major factor in contributing to high death rates in the country. This research work is therefore an attempt to find out to what extent pharmaceutical companies and regulatory agencies have contributed in safeguarding the industry in the country. The situation as it is, gives an indication that there is damaging impact of unethical practices on the economy, the nation's image and loss of public confidence in the industry. It is therefore, in view of the proceeding problems as caused by the activities of pharmaceutical companies that this study revolves.

1.1 Hypotheses for the Study

To guide the researcher in the achievement of the objectives of the study, the following relational research hypotheses are hereby formulated for testing:

H₀₁ There is no significant relationship between adherence to code of ethics and the production of quality products by the pharmaceutical companies in Nigeria.

H₀₂ There is no significant relationship between enforcement procedures (proper documentation, product standardization and regulatory laws) and the production of quality products.

H₀₃ There is no significant relationship between customer's satisfaction and the production of quality products by the pharmaceutical companies in Nigeria.

2. Theoretical and Conceptual Framework

This study is based on the earlier works of Elegido (2000); Okpara (2003); Weaver, Trevino and Cochran (1999); Winstanley and Woodall 2003; Wulfson (1998). These researchers have suggested that formal codes of ethics generally will inhibit unethical behaviour of employees in organizations. Jones (as cited in Velasquez, 2006) agreed that a written code of ethics provides employees with an understanding and knowledge of what their organizations expect from them in terms of responsibilities and behaviour. According to Arnold (2003); Asgary and Mitschow (2002); Carroll (1999); Cragg (2002); Elegido (2000); Hoffman (2006), a code of ethics is important because it provides visible guidelines, stability to an organization, and a point of focus for everyone in the organization. Results of a research conducted by Trevino, Weaver and Reynolds (2006) lend support to the proposition that there is a relationship between ethical codes of conduct and employee's behavior. All levels of employees need to be aware of company policies regarding ethics in order to make the right decisions in difficult business situations, to know how and when to seek help when faced with ethical dilemmas, and to know where to report possible unethical conduct. Researchers such as Elegido (2000); Nwachukwu (2004); Wulfson (1998) have also suggested that organizations that have adopted codes of ethics have helped to facilitate ethical decision-making for their workers thereby leading to positive work attitudes and possibly to higher levels of organizational commitment. We therefore, anticipate that employees will be more committed to organizations that have adopted codes of ethics.

2.1 Code of Ethics and Business Conduct

One response by business to the question of ethics has been to develop a code of ethics that is communicated to all employees (Dzurgba, 2007; Elegido, 2000; Nwachukwu, 2004). A written code of ethics provides employees with an understanding and knowledge of what their organizations expect from them in terms of responsibilities and behaviour. A code of ethics reflects corporation standards and establishes realistic modes of behaviour that applies to everyone in the company, from the board of

directors to the newest employee (Ogundele, 2005., Rue & Byars, 2000). According to Nwachukwu (2004), a code of ethics is important because it provides visible guidelines and a point of focus for everyone in the organization. The reputation of an organization and its actions reflect the ethical conduct that affects its potential for profit and growth. All levels of employees need to be aware of company policies regarding ethics in order to make the right decisions in difficult business situations, to know how and when to seek help when faced with ethical dilemmas, and to know where to report possible unethical conduct.

The world's leading companies lead because they set the standards of performance and behaviour that others aspire to. They are clear about what they believe in and what they want to be. The code of conduct crystallizes the basic rules, standard and behaviours necessary to achieve those objectives (Dubinsky & Loken, 1989; Elegido, 2000; Nwachukwu, 2004). It provides requirements and guidance, expressed as clearly, concisely and consistently as is possible, within a single company-wide document for all employees on a number of enterprises – wide risk areas. The code of conduct is a common reference point for anyone who is unclear about what is expected of them in a specific situation; a valuable toolkit that can help put a business principle into practice (Dzurgba, 2007).

3. Research Methodology

In this study, the researcher adopted a cross-sectional design or survey. The sample size used for this study consisted of five pharmaceutical companies listed on NSE. The instruments used to gather data were hand delivered to the employees identified for this study. Research assistants were responsible for hand delivering and collection of the instruments. The instruments were coded and were returned anonymously to a central place where they were collected by the research assistants and returned to the researcher. Indeed, this procedure was not considered a problem or perceived to constitute a bias because the identities of respondents were protected.

3.1 Validation of the Research Instruments

The instruments used in this research were submitted to a panel of experts in the field of study for validation. The panel was asked to review the content of the items in each of the instruments and determine if the items were within the linguistic capabilities and understanding by pharmaceutical companies in Nigeria. The panel was also asked to eliminate items or questions they found to be irrelevant to the Nigerian work environment, and make suggestions on how to simplify the items that were not relevant. The experts independently and anonymously recommended the use of the instruments for this study. The panel also indicated that the instruments were good measures of the concepts identified for this study. Our study calls for the adoption of a Multivariate Statistical Technique for the examining the linear correlations between the variables via the instrumentality of Predictive Analytic Software.

3.2 Model Specification

The researcher hereby specifies the model to be adopted to facilitate data analysis and to test hypothesis. It is hoped that such would help in answering research questions and to attain the research objectives. Details of the model in question can be spelt out briefly as follows:

Production of quality products is measured in terms of the performance, reliability, safety, long lasting and expressed mathematically as PRQ.

PRQ = Production of Quality Products.

PRQ = Performance (y_1) + reliability (y_2) + Safety (y_3) + Long lasting (y_4).

PRQ_o = $f(y_1, y_2, y_3, y_4)$

Corporate Ethical Code is captured by the degree of excellence in the practical production of the product. It is measured in terms of Adherence to code of ethics, Enforcement procedures, compliance to ethical provisions, Customer complains/response, Whistle blowing policy and Attitude of foreign businessmen.

ICE = Influence of Cooperate Ethical Codes

ICE_o = Influence of Cooperate Ethical Codes Variables (Education and Training

$$\begin{aligned} & (x_1) + \text{Compliance to enforcement procedures } (x_2) + \text{Customer satisfaction } (x_3) + \text{Whistle} \\ & \text{blowing policy } (x_4) + \text{Attitude of foreign businessmen } (x_5). \\ \text{ICE}_o & = (x_1 + x_2 + x_3 + x_4 + x_5) \\ \text{ICE}_o & = f(x_1, x_2, x_3, x_4, x_5) \end{aligned}$$

Therefore,

$$\begin{aligned} \text{PRQ} & = f(x_o) \\ \text{PRQ} & = f(x_1, x_2, x_3, x_4, x_5) \\ \text{PRQ} & = f(\text{ICE}) \end{aligned}$$

4. Method of Data Analysis

The Methodology adopted for our data analysis was guided largely by the nature of our research problem and the hypotheses to be verified. A statistical technique relevant to this study was utilized to establish the existence or otherwise of the relationship between the observance of ethical standards and the production of quality products. Our study calls for the adoption of a Multivariate Statistical Technique (Multiple Linear Regression model) for examining the linear correlations between two or more variables via the instrumentality of PASW (Predictive Analytic SoftWare) SPSS 18 statistical software to facilitate necessary computations. Multiple regression is required for this study because a single-predictor model is inadequate to describe the true relationship between the dependent variable Y (the response variable) and its potential predictors (X₁, X₂, X₃, ...).

4.1 Empirical Results

This study uses data for a sample of 280 managers of selected pharmaceutical companies in Nigeria. The analysis embraces the Multiple Regression as suggested by Doane and Seward (2008), that the dependent (response) variable (Y) is assumed to be related to the X independent (predictors) variables X₁, X₂, X₃ --- X_p as par our model above.

Tables 1.1(a), and 1.1(b) present the regression model summary and ANOVA for overall significance of the model while Figure 1.1 and table 2.1 explain the regression test for normality of residuals and model coefficients respectively. Once the regression model has been constructed, it is important to confirm the goodness of fit of the model and the statistical significance of the estimated parameters. Commonly used checks of goodness of fit include the R-Squared, analysis of the pattern of residuals and hypothesis testing. Statistical significance can be checked by an F- test of the overall fit, followed by t-tests of individual parameters. Interpretations of these diagnostic tests rest heavily on the model assumptions as earlier stated above.

Table 1.1(a): Regression Model Statistics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.992	.984	.984	.424	1.873

Source: *Field survey, 2012.*

R is a measure of the correlation between the observed value and the predicted value of the criterion variable. Here, it is the correlation between the quality of production as obtained from the participants and the levels predicted for them by our predictor variables. It is calculated to be 0.992, which indicates that our model does well at predicting the dependent variable (Quality of Production).

Coefficient of determination (R^2) is the square of this measure of overall fit and indicates the proportion of the variance in the criterion variable which is accounted for by our model. Here, the proportion of the variance in quality of production scores accounted for by our set of predictor variables (Adherence to ethics, enforcement procedures, customers' satisfaction, etc.). In essence, this is a measure of how good our prediction of the criterion variable can be by knowing the predictor variables. For our model, R Square is 0.984, which means that our model has accounted for 98.4% of the variation that exists in the quality of production in the chosen pharmaceutical companies.

The Adjusted R Square value (*adjusted coefficient of determination*) is calculated which takes into account the number of variables in the model and the number of observations (participants) our model is based on. This Adjusted R Square value gives the most useful measure of the success of our model. It also gives us an idea of how well our model can be generalized which means the closer it is to R Square, the better. The difference between R Square and Adjusted R Square indicates how much less variation in the outcome we would get if we used the entire population in our analysis, and not just our sample. This helps us to cross-validate our model, and gives us confidence to generalize our findings to other samples from the population. In our model, the value of the Adjusted R Square is 0.984, the same as the R Square. This means that even if we had studied every member of the population, we would still have gotten the same amount of variation in our result, and therefore we can generalize our findings for every sample from the population.

For our model, the Durbin-Watson test statistic is calculated to be 1.873, which is reasonably close to 2. The assumption has almost certainly been met. This table reports an ANOVA, which assesses the overall significance of our model by testing whether the

Table 1.1(b): ANOVA for overall significance of the model

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3083.650	5	616.730	3427.934	.000 ^a
	Residual	49.296	274	.180		
	Total	3132.946	279			

Source: SPSS Regression Printout, 2012.

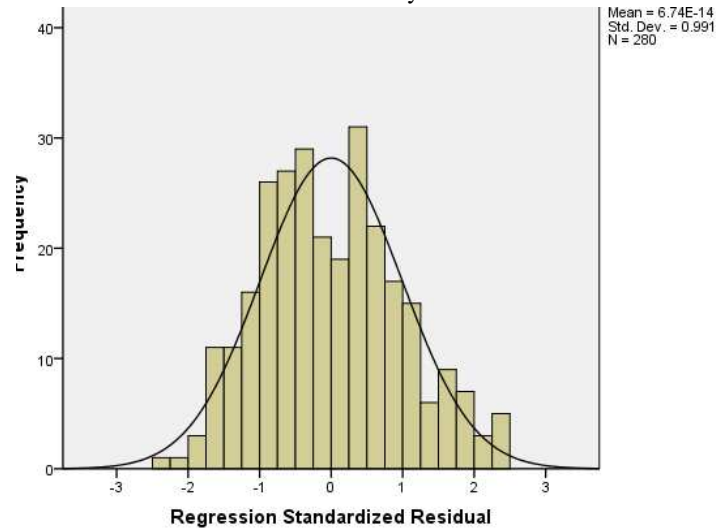
model is significantly better at predicting the outcome than using the mean as a 'best guess' as cited by Field (2005). Specifically, the F-ratio represents the ratio of the improvement in prediction that results from fitting the model, relative to the inaccuracy that still exists in the model. For our model, the F-ratio is 3427.934, and the SPSS calculates the exact probability of that happening by chance, which is indicated by 'Sig.' in SPSS. Since sig. = 0.000, our model is statistically significant at 0.05 level of significance.

Testing the Validity of the Regression model the analysis of regression residuals is an important tool for determining whether the assumptions of the regression model are met by checking the validity of the model assumptions in the multiple regression analysis. Residual plots are easy to use, and they convey much information quickly. The saying "A picture is worth a thousand words" is a good description of the technique of examining plots of regression residuals (Cooper and Schindler, 2006).

Consequently, more precise statements can be made about our data from a normal or Gaussian distribution, named for its discoverer Karl Gauss (1777-1855). The Gaussian distribution is the well-known bell-shaped curve which is in line with our analysis under investigation for normality test as presented in below.

Figure 1.1 Test for normality of residuals

Regression also assumes that the residuals are normally distributed. A deviation from this assumption



makes our analysis (and predictions) invalid. To test for **normality** of residuals, we examine the histogram. SPSS plots a curve on the histogram to help us visualize the shape of the distribution. For our model, the histogram actually shows a normal curve. This verifies that our assumption of normality of residuals has been satisfied.

These *b* values indicate the relationship between quality of production and the respective independent variables, whether positive or negative. For our data, all the three independent variables have positive *b* values, indicating positive relationships. The *b* values further tell us to what degree each independent variable affects the quality of production if the effects of all the other independent variables are held constant. We shall examine them one after the other as follows:

Adherence to ethics ($b=0.748$): This value means that, for each unit increase in the adherence to ethics by the block manufacturing firms, their quality of production increases by 0.748 units. This interpretation is valid only if all the other variables are held constant.

Enforcement procedures ($b=0.421$): This says that for each unit increase in enforcement procedures, the quality of production increases by 0.421 units. Again this only holds when all the other variables are held constant.

Customer satisfaction ($b=0.131$): For each unit increase in customer satisfaction by the block manufacturing firms, their quality of production increases by 0.131 units. This interpretation is valid only if all the other variables are held constant. Meanwhile, the test for adherence, enforcement procedures and customer satisfaction are presented in table 1.1(c) respectively.

Table 2.1 model coefficients.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	
	B	Std. Error	Beta			
1	(Constant)	-23.326	.824		-28.319	.000
	Adherence to ethics	.627	.006	.748	96.491	.000
	Enforcement procedures	.468	.009	.421	51.222	.000
	Customers satisfaction	.141	.009	.131	16.174	.000

Source: *SPSS Regression Printout, 2012*

4.3 Test of Hypotheses

Hypothesis I

H₀: Adherence to code of ethics has no significant effect/impact on the production of quality products.

From the regression analysis output (highlighted in boldface), as presented in table 4.3(a) shows that pharmaceutical companies do adhere to code ethics in the industry and they do produce qualitative products for human consumption.

Decision Criteria: Reject the null hypothesis, if the *b*-value is greater than 0.05 level of significant, or otherwise, accept the null hypothesis. We therefore reject the null hypothesis and conclude that adherence to code of ethics has a positive impact (.748 Beta values) on the production of quality products in the pharmaceutical industry.

Hypothesis II

H₀: There is no significant relationship between enforcement procedures and the production of quality products.

The data presented in table 4.3(b) shows that 47 percent of the respondents are of the opinion that managers in pharmaceutical companies have a positive attitude towards enforcement procedures and compliance to ethical provisions as stipulated by regulatory agencies.

Decision Criteria: Reject the null hypothesis if the *beta* value (.421) is greater than the critical value which in our case is 0.05 significant levels. We therefore reject the null hypothesis and conclude that enforcement procedures do have a significant relationship on the production of quality products in the pharmaceutical industry.

Hypothesis III

H₀: There is no significant relationship between customer's satisfaction and the production of quality products by the block manufacturing firms in Nigeria.

It is relevant to state that question 13-16 of section "B" in the questionnaire were purposely designed to ask for information about customer's complaints and satisfaction. The responses on these questions were analyzed at a 0.05 level of significance.

Decision rule: Since the calculated *beta* value. (.131) is greater than the critical value which in our case is 0.05 significant levels. We therefore reject the null hypothesis and conclude that customers' satisfaction does have a moderate relationship on the production of quality products.

4.4 Discussion

This study used data for a sample of 280 managers of pharmaceutical companies listed on Nigeria Stock Exchange. The data is obtained from the pharmaceutical companies in respect of years 2004 – 2006. The respondents were mainly male (70%) with a mean age of approximately 40 years. Over half of the sample (51%) had five or more years experience in their present jobs. 38 percent had their job tenure of 1 to 5 years, only 6 percent held their present jobs for less than one year. The majority of the respondents (70%) were at intermediate or senior management levels in their organizations and 30% were first time supervisors.

The purpose of this exploratory study was to investigate the influence of ethical standards in the production of quality, a focus on selected pharmaceutical companies in Nigeria and Benue state in particular. Prior

findings from studies conducted in the United States and other advanced industrialized countries clearly indicated that awareness of unethical activity is less prevalent in organizations that have adopted codes of ethics (Okpara, 2003; England, 2006). This study provided additional support for this proposition in that employees in pharmaceutical companies that had adopted corporate codes of ethics were significantly less aware of wrongdoing than were employee in organizations without codes of ethical conduct. An ancillary finding associated with the results raise some cause for concern. Specifically, only 6 percent of the respondents reported that their organizations had formal codes of ethics. This finding stands in sharp contrast to previous research findings in the west particularly in the United States where nearly 75 percent of organizations were reported to have adopted corporate codes of ethics (Elegido, 2000; Okpara, 2003; Nnadi, 2008). Findings also indicated that 51 percent of study participants reported that they were “not sure” if their organizations had a code of ethics.

Thus, this current research is in line with previous studies conducted by England (2006) Okpara (2003); Trevino, Weaver and Reynolds (2006). The findings support the contention that unethical behavior will be less prevalent in organization that have corporate codes of ethics than it is in those organizations that have not formally adopted codes of ethics. The results in hypothesis one suggest that unethical behavior was less rampant in pharmaceutical companies that had written codes of ethics. A significantly smaller percentage of respondents (18.4 percent) in pharmaceutical companies that had written codes of ethics were aware of wrongdoing in their organizations when compared to the percentage of respondents (32.2 percent) in organizations without a code of ethics who were aware of wrongdoings. Based on this result, it can be concluded that the presence of corporate ethical codes of conduct is an important tool that could guide managers in making better ethical decisions.

Also, the findings reported in hypothesis two indicate that significant differences were found between levels of commitment with the organizations that adopted ethical codes of conduct and those who did not. The present study also provides some support for this proposition in that the highest levels of commitment were observed in those organizations with codes of ethics, this finding, suggests that pharmaceutical companies concerned with ethical conduct build a supportive climate that includes values that emphasize integrity and ethical conduct and that encourages commitment to the organizational values. This finding is consistent with the previous findings in the west (England, 2006). Therefore, in the Nigerian context, as in the western world, ethical codes of conduct appear to be one of the fundamental factors that can encourage managerial commitment.

Results also indicated that the presence of corporate codes of ethics had no influence on employee’s willingness to report observed wrongdoing. The general attitude of most managers as indicated by one respondent is that “I m here to do my job, and to mind my business only”. Yet, another respondent stated that “things happen to those who tell in my company and no one here wants to face the consequences of telling management about unethical practices that go on daily in our firm”. This means that many members of an organization might be ethical and are following the stated code of ethics, but do not want to report those who violate ethical codes because of the consequences.

5. Conclusion

This research has revealed the need to increase education, awareness, training and information about corporate ethical codes of conduct in employee and managers of pharmaceutical companies. The results of the survey analysis show that respondents who had formal codes of ethics were more aware of wrongdoing than were respondents in pharmaceutical companies without formal codes of ethics. The implication of this is that top management should recognize the influence of written codes of ethics on employee’s behavior and develop strategies to promote ethical behavior by creating training programs on ethical decision-making, and by developing guidelines on how to enforce ethical codes when violated. These programs should provide employees with the tools they need to identify ethical issues at work and strategies to resolve them. With more attention to corporate ethical codes of conduct, it is likely that the current trends of corporate scandals and unethical behaviour in industry can be reversed.

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The Author

Born on December 31, 1967 in Benue State North Central Nigeria, Fidelis Ayatse received his B.sc and MBA degrees at Usman Danfodiyo University, Sokoto and a Ph.D (Management Studies) from the Benue State University, Makurdi Nigeria in 2010. His primary areas of research interest include Ethics, Strategic Management, and Management Information System. His work may be found in a variety of Peer-reviewed Journals including the *Journal of Humanities*, *Journal of Development Studies*, *African Journal of Economy and Society* and the *Journal of Management and Administration*.

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