

The Effect of Ethical Treatment towards Employees on Enterprise Performance In Mumias Sugar Belt, Kenya

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Abstract

This study attempts to examine the role of ethical treatment towards employees in enhancing enterprise performance. In this study, respondents are the employees contracted to Mumias Sugar Company which subcontracts cane transport services to private cane haulage companies. A total of 138 questionnaires were distributed and 100 were returned. To test the conceptual framework, a structural equation was modeling to analyze the data was done. In this regard, frequencies, correlations and binary logistic regression were used to establish the relationship between ethical treatment to employees and enterprise performance. Findings revealed that ethical treatment indicators are predictors of enterprise performance among cane transport companies in Mumias Sugar Belt.

Keywords: Ethical Treatment, Employees, Enterprise Performance

Introduction

Ethical business is a set of principles that govern the action of an individual or group in an enterprise, Smit and Kaufman (2003). Ethical business is concerned with truth and justice and includes aspects of which society expects for instance fair competition, social responsibilities and corporate ethical business behaviour (Gilman 2003). Ethical business practices refer to actions that appear to further some social good, beyond the interests of the firm and that which is required by law (McWilliams and Siegel, 2001). Specifically ethical business practices suggest that the enterprise identify its stakeholder groups and incorporate their needs and values within its strategic operation and decision making process, Hatman et al (2006). This concept encompasses the moral responsibilities that businesses have to the societies within which they operate (Hartman et al 2006).

The extensive debate and research concerning whether ethical business is or is not profitable indicates that most do not define ethical business as only those initiatives that are beyond profits, but that it includes both profitable and unprofitable initiatives which have social benefits. This definition of ethical business inherently goes beyond Langtry's (1994) minimalist and non-minimalist pure stockholder ethical theories. However, it is consistent with both his "tinged stockholder theory," where "firms should be run to maximize the interests of stockholders, subject not only to legal constraints but also to moral or social obligations" and to an intrinsic view of non-shareholder stakeholders as described by Berman et al. (1999) MSEs across the world exhibit a variety of ethical business practices principles, policies and practices (Baughn et al., 2007; Kusku and Zarkada-Fraser, 2004) with different levels of intensity (Welford, 2005; Maignan and Ralston, 2002).

However questions still linger as to what explains the similarities or differences in ethical business across countries, why ethical business practices change over time and what explains these changes. These unexplained questions justify the reason why a study should be carried out in Kenya to establish the status of ethical business practices among MSEs.

It is only in the last decade that business ethics scholars have made concerted effort to expand their research to countries other than the United States (Oumlil et al 2009). One country that has been getting a lot of attention of economists, business professionals, and politicians is China (Lu, 2008). It produces nearly half the world's goods and products. In less than a quarter-century since Deng Xiaoping initiated his "open door policy," China has become one of the most powerful and unpredictable force in the economic world. Its enormous pool of cheap labor and untapped market has attracted billions of dollars from multinationals all over the world and lifted over 250 million out of poverty since 1978. Today, China has the largest trade surplus with the United States and is one of the largest holders of U.S. treasury bills. In addition, it is expected to overtake the United States' gross domestic product by 2039 (Chandler, 2004). However, in the recent past, the "Made in China" label has taken a severe beating. Recent revelations of defective products from China like melamine-contaminated foods, and toys contaminated with lead paint have raised concerns about social responsibility in China (Gallagher, 2009; Lu, 2008).

Companies in Kenya display different understandings and levels of commitment to ethical business as demonstrated by the issues they prioritize and the range of ethical business processes they employ (Muthuri et al 2010). Evidently philanthropic responsibilities feature highly on the ethical business practices agenda and unlike Carroll's (1991) ethical business practices pyramid, philanthropy takes a higher priority than legal responsibilities in Kenya.

The need for focused ethical business practices research on cane haulage in Kenya is critical particularly with the concern that current approaches to ethical business practices, with their origin in developed countries,

“may not sufficiently relate or respond to the context and circumstances encountered in developing economies” (Hamann, 2006). As we know it, developing countries do not share the same cultural and social values, norms and priorities that underpin ethical business practices in ‘western’ nations (Blowfield and Frynas, 2005; Jamali and Mirshak, 2007).

2.1.1 Ethical treatment towards employees and performance

Research that directly addresses the link between ethical behavior of firms towards their employees and financial performance is mixed. Griffin and Mahon (1997) and Roman *et al.* (1999) summarize 25 years of prior research on the association between “social performance” and financial performance. Both of these reviews report that prior results are mixed; some studies demonstrate positive associations, others negative associations and several studies fail to document any association between social and financial performance.

A study on relationship between organizations and employees by Dzansi (2003), shows that ethically responsible enterprises have enjoyed business success, customer loyalty, able to attract good and loyal employees, reduced labour turnover coupled with reduced operating costs and better financial performance. As a result, Gilman (2003) opines that when it comes to codes and disclosure, enterprises interested in obtaining good results must provide employees with a safe environment that enables them to ask ethics questions and helps them to obtain right answers. Altizer (2003) carried out a similar study which sought to review the influence of ethical treatment towards employees on performance. He reveals that while it may not be possible for smaller enterprises to have the same level of formal structures, they should still be able to customise a formal structure that fits into their culture. These outcomes are complemented by another study which opines that, whenever ethics is well established in the enterprise with respect to employees, ethics training can contribute to enterprise management health and stability (Navran & Joseph 2003).

Other studies were done by Joseph (2003) on employee ethics. He observed that businesses which integrate ethics codes, training, help lines and other programme elements into everyday business activities are more effective and efficient. The study further points out that ethical communications provide for honesty, respect and showing sensitivity to cultural differences. He concluded his study by pointing out that the ethics code has long-term approaches of making the enterprise values integral and vital parts of operations. This study did not clearly identify the sector of study. The proposed study will focus on employee ethics in the sugarcane sector in Kenya.

In a related study, Gilman (2003) explains that many organisations commit “ethics suicide”, because they became vulnerable by creating ethics programmes that fulfilled only minimal legal standards with little or no thought for employee related ethics programmes. He gave examples of using an inexperienced officer to drive the ethics programme in one organization, and another organisation used legal staff to draft code of conduct for the legal staff, which was unworkable for the generality of the staff. This study does not address itself to employee ethics. Moreover the study is not in the sugar sector, a gap which our study seeks to fill.

Materials and methods

Questionnaire design

The measure of ethical treatment towards employees was based on previous work by Stevens (2005) et al. Studies conducted by Hosmer (1994) and Stevens (2005) considered; employee work place treatment, trade unions freedom, promotion opportunities, work safety, job security and non discrimination as dimensions of employee ethical treatment. This study modified and adopted the measures which were arranged on a 5 point likert scale ranging from 1=strongly disagree to 5=strongly agree.

The respondents were asked to rate each item on a five-point Likert scale anchored at 1 = “Strongly Disagree” and 5 = “Strongly Agree”. The responses obtained were subjected to a reliability test to ascertain the validity of the instrument used to collect the data on the ethical treatment towards employees, and the results were reported in Table 4.7.

Table 4.7 Ethical Treatment Towards Employees Reliability Test

[Cronbach's Alpha = 0.606] (if item deleted)	
ETE1*	Employees on good pension scheme
ETE2	Employees with full support to join Trade Union (0.582)
ETE3*	Employees promoted since they joined current Employer
ETE4	Employees with good work Safety Facilities (0.546)
ETE5*	Employees with competitive Salary Package
ETE6	Employees with good job Security (0.411)
ETE7	Employers give local Community Preference during employment (0.566)
ETE8*	Employees Gender balance during recruitment
ETE9*	Employers solve financial problems beyond Employees salary
ETE10*	Employers sponsor employees for further training

* Item deleted

From Table 4.7, there were four items retained which yielded a Cronbach alpha of about 61 percent. These items included employees with full support to join trade union (ETE2), employees with good work safety facilities (ETE4), employees with good job security (ETE6), employers give local community preference during employment (ETE7). The four items retained formed the basis for further analysis this study, which measured ethical treatment towards employees by the employers.

Measures of enterprise performance were based on a study by Klassen and McLaughlin. (1996) who measured performance based on the respondents perception. This approach was also consistent with Murgolis and Walsh (2002) who deviated from the conventional measurement of performance in terms of firm profitability and extended it to social performance with indicators measured purely on perceptions. Murgolis and Walsh (2002) enlisted enterprise reputation, employee commitment, enterprise public image, customer satisfaction and customer loyalty as measures of organizational social performance. This study adopted these dimensions and assessed them on a seven point likert scale ranging from 1= "extremely displeased to 7= "extremely pleased." The measures formed part D of the Customers Questionnaire.

This was intended to capture the extent to which employees were in agreement with statements on good pension scheme, full support to join trade union, promoted since they joined current employer, good work safety facilities, competitive salary package, good job security, employers give local community preference during employment, gender balance during recruitment, employers solve financial problems beyond employees salary, and employers sponsor employees for further training.

The six indicators that measured employees perception on the enterprise performance were subjected to a reliability test to assess the validity of response obtained using the research instrument. The results were recorded in Table 4.9.

Table 4.9 Employees Perception on Enterprise Performance Reliability Test

Cronbach's Alpha = 0.678 (if item deleted)	
EPEP1	Employees perception on their companies reputation on farmers and other stakeholders (0.492)
EPEP2	Employees do not leave the company to seek employment elsewhere (0.807)
EPEP3	Employees committed to their work (0.592)
EPEP4	Employees perception on their company's public image (0.538)
EPEP5	Employees perception on their company's customers happiness (0.545)
EPEP6	Employees perception on loyalty to their companies (0.597)

It was observed that item EPEP (Employees do not leave the company to seek employment elsewhere) had a higher Alpha coefficient (0.807) worthy deletion. Interestingly, from Table 4.8, this was the only indicator with a divergent view (negative correlation) on employees' perception about the enterprise performance. Therefore, it was not surprising, making it worth further probing in the study. As a result, the six indicators for measuring employees' perception on enterprise performance were used in the subsequent analysis.

Data analysis

To assess direct relationship among studied variables, the study utilizes response frequencies, Pearson correlations and logistic regression based on Kenny and Barron (1986) four steps. The tested relationship of ethical treatment to customers and enterprise performance reported for the hypothesis was based on step one of Kenny and Barron (1986) four steps.

RESULT AND DISCUSSION

Descriptive statistics

Employees' perspective of ethical treatment towards employees

Ethical treatment towards employees on enterprise performance was evaluated on the basis of employees to address the main study objective. This information was useful in examining whether the content of ethical treatment towards employees had a relationship with enterprise performance thus the results in this section were based on the following ethical indicators; Employees on good pension scheme, Employees with full support to join Trade Union, Employees promoted since they joined current Employer, Employees with good work Safety Facilities, Employees with competitive Salary Package, Employees with good job Security, Employers give local Community Preference during employment, Employees Gender balance during recruitment, Employers solve financial problems beyond Employees salary, Employers sponsor employees for further training.

Table 4.6: Frequencies of responses on ethical treatment towards employees

Statement		SD	D	N	A	SA	TOTAL
Employees on good pension scheme	F	61	26	0	12	1	100
	%	61.0	26.0	0.0	12.0	1.0	100
Employees with full support to join Trade Union	F	30	48	5	13	4	100
	%	30.0	48.0	5.0	13.0	4.0	100
Employees promoted since they joined current Employer	F	43	36	0	11	10	100
	%	43.0	36.0	0.0	11.0	10.0	100
Employees with good work Safety Facilities	F	13	66	0	8	13	100
	%	13.0	66.0	0.0	8.0	13.0	100
Employees with competitive Salary Package	F	66	27	0	6	1	100
	%	66.0	27.0	0.0	6.0	1.0	100
Employees with good job Security	F	42	25	2	25	6	100
	%	42.0	25.0	2.0	25.0	6.0	100
Employers give local Community Preference during employment	F	48	39	0	12	1	100
	%	48.0	39.0	0.0	12.0	1.0	100
Employees Gender balance during recruitment	F	56	39	1	4	0	100
	%	56.0	39.0	1.0	4.0	0.0	100
Employers solve financial problems beyond Employees salary	F	56	29	0	10	5	100
	%	56.0	29.0	0.0	10.0	5.0	100
Employers sponsor employees for further training	F	68	32	0	0	0	100
	%	68.0	32.0	0.0	0.0	0.0	100

Source: Survey Data 2012

It can be observed from Table 4.6 that majority of the employees of the cane transport companies seemed to disagree with all the statements regarding ethical treatment towards employees by the employer.

The perception of employees on enterprise performance was based on objective three, to assess whether the content of ethical treatment towards employees had a relationship with employees' perceived enterprise performance. The indicator information consisted of employees' perception on their companies' reputation on farmers and other stakeholders, employees do not leave the company to seek employment elsewhere, employees committed to their work, employees' perception on their company's public image, employees' perception on their company's customers happiness as well as employees perception on loyalty to their cane transport companies. A 5-point Likert scale was utilized in capturing the response having Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A), and Strongly Agree (SA) with corresponding values of 1, 2, 3, 4, and 5, respectively. The results were displayed in Table 4.7.

Table 4.7: Response frequencies of employee perception on enterprise performance

Statement		SD	D	N	A	SA	TOTAL
Employees perception on their companies reputation on farmers and other stakeholders	F	40	39	9	11	1	100
	%	40.0	39.0	9.0	11.0	1.0	100
Employees do not leave the company to seek employment elsewhere	F	2	14	3	56	25	100
	%	2.0	14.0	3.0	56.0	25.0	100
Employees committed to their work	F	50	39	4	7	0	100
	%	50.0	39.0	4.0	7.0	0.0	100
Employees perception on their company's public image	F	20	59	18	2	1	100
	%	20.0	59.0	18.0	2.0	1.0	100
Employees perception on their company's Customers happiness	F	31	36	26	4	3	100
	%	31.0	36.0	26.0	4.0	3.0	100
Employees perception on loyalty to their companies	F	36	31	17	15	1	100
	%	35.0	31.0	17.0	15.0	1.0	100

Source: Survey data 2012

In Table 4.7, it was observed that majority of the respondents were in disagreement with their opinion on the enterprise performance except for the indicator that employees do not leave the company to seek employment elsewhere.

Hypothesis testing

H1₀₁: Ethical Treatment towards farmers (customers) has no Effect on Enterprise Performance

To test this hypothesis, the correlations and the binary logistic regression models were used to establish whether there was a relationship between the ethical treatment towards farmers (independent variables) and enterprise performance factors (dependent variables). The results are displayed in Table 4.9 below. The table displays Pearson correlations between ethical factors and enterprise performance factors.

Table 4.12: Pearson Correlation (p-value)

Ethical Factor	Enterprise Performance Indicators					
	EPEP1	EPEP2	EPEP3	EPEP4	EPEP5	EPEP6
ETE2	-0.167 (0.097)	0.151 (0.133)	-0.124 (0.218)	-0.08 (0.431)	-0.124 (0.218)	-0.125 (0.216)
ETE4	-0.190 (0.058)	0.062 (0.540)	0.045 (0.655)	-0.091 (0.370)	-0.141 (0.160)	-0.225 (0.024)**
ETE6	0.019 (0.854)	0.159 (0.113)	-0.099 (0.326)	0.009 (0.93)	-0.099 (0.326)	-0.293 (0.003)***
ETE7	-0.051 (0.613)	-0.040 (0.691)	0.01 (0.918)	-0.068 (0.502)	-0.106 (0.294)	-0.006 (0.949)

** P-value < 0.05

*** P-value < 0.01

Source: Researcher 2012

In Table 4.9 there were two indicators of ethical treatment towards farmers, that is, farmers trust drivers with their cane (ETF3) and farmer's cane stolen on transit (ETF6) that had a significant relation with the enterprise performance indicators i.e. farmers' perceived; reputation of cane transporters (FPEP1), goodwill to cane transporters (FPEP4) and customer loyalty of cane transporter (FPEP5). This offers preliminary rejection of H1₀₁ (P < 0.05). These relationships were subjected to Baron's assumptions to ascertain the true nature of relationship and results were reported in Table 4.10 below. The Table displays the logistic regression output of the four steps of Kenny and Barron (1986).

Table 4.10: Baron & Kenny Steps

Step	Path	#Estimate	95% CI	Beta	P	E.S
1	c	-.143	-.218 to -.067	-.196	<.001	d = -.434
2	a	.154	.040 to .268	.141	.008	d = .310
3	b	-.089	-.159 to -.020	-.133	.012	r = -.135
4	c'	-.129	-.205 to -.053	-.177	<.001	d = -.395

Unstandardized Beta

According to Table 4.10, step 1 of Baron and Kenny (1986) passed. This suggests that there was evidence that ethical treatment towards farmers on cane theft while on transit was related to farmers perceived customer loyalty of cane transporters $B = -0.143$, ($P < 0.05$) with a small effect size of ($d = -.434$). As a result, the null hypothesis H101 was rejected and the alternative accepted thus cane theft while in transit influenced customer loyalty

This result is consistent with a similar study by Webster, (1992); who carried out a study to identify customer/business relationships and established that ethical business has an impact on overall performance. Similarly, this study finding corroborate well with a study by Deshpande, Farley and Webster, (1993); who wanted to establish a relationship between customer orientation as a measure of ethical treatments to customers and performance indicators. They established that an important implication of customer orientation is its significant relationship to key marketing outcomes as business performance.

Similarly this study is consistent with results obtained by Slater and Naiver, (1994); who concluded that those businesses that devote significant resources to understanding their customers and competitors and coordinate the activities of different functions of business for an integrated value creation effort are rewarded with superior profitability, sales growth and new product success relative to other firms.

However this study slightly varies with the findings of Slater and Naiver, (1994); in the sense that the later measure performance in financial outcomes rather than social outcomes fronted by this study. Results in our study also compare well with findings by Cragg, (2002) and Lorraine et al. (2004) who carried out a study to establish the effect of corporate revealed ethics and financial performance of the firm. Their study revealed that cooperate ethics enhanced the appeal of the firms share. Similar to our findings, Lorraine et al. (2002); revealed that ethics provides a clear signal about the stance and beliefs of the firm reducing uncertainty about future actions and long term risks. Consistent with this studys' results, their study revealed that ethical business maybe a valuable tool to create intangible assets like good corporate image and enhanced reputation which can be sources of competitive image.

Similarly this result is inconsistent with results of another study by Queen Jones (1999) who argued out that ethical initiatives to customers justified on strategic basis are infact unethical and unlikely to provide economic benefits because an ethical stance is hard to fake when its underlying motivation is the profit maximization .A similar study by Hillman and Keina (2001) states that participating in social and ethical issues in regard to customers may adversely affects to films profitability to create shareholders wealth. The sharp variance in these outcomes could be attributed to the fact that to previous studies measure performance in terms of financial outcomes contrary to performance in terms of social outcomes which cannot be quantified and given financial values.

Most likely the consistence in results of these studies on the correlation between ethical gestures to customers and enterprise performance could be attributed to the fact that customers who are treated well will always plan repeat purchases which translates into higher profitability. Lorraine et al. Compounds this position by insisting that ethical business particularly to its customers may be a valuable tool to create intangible assets like good corporate image and enhanced reputation which can be a source of competitive advantage.

However, this study finding vary with a study by Cronin and Taylor, (1992); who reported that customer ethics did not seem to have a significant effect on enterprise performance. This variance could be explained by the fact that their study measured enterprise performance, while this study performance indicators were customer loyalty, reputation of cane transporters and goodwill to sugarcane transporters.

Conclusions and recommendations

This study sort to determine the effect of ethical treatment towards employees on enterprise performance. The findings indicated that ethical treatment towards employees operationalized as employees with good job security positively influenced enterprise performance operationalized as employees' perception of loyalty to their companies. This means that when employees' job security increased, their loyalty to the company also increased. On the basis of these findings it was concluded that ethical treatment towards employees had an effect on enterprise performance hence rejection of H_0 .

The study therefore recommends that employers of sugarcane transport companies should consider treating their employees with decorum by improving working conditions because good working conditions serve

as an incentive to employees.

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