

Impact of Business Ethics on Employee Turnover

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Abstract: *Business ethics and the employee turnover are two important aspects of every business entity. Business ethics and employee ethics are often correlated. Also the employee ethics and attrition rate are also correlated. Unethical practices are unwanted, so is the high employee turnover. Unethical practices and high employee turnover in business is ubiquitous. No consensus exists on defining ethics. Employee turnover is well defined, but there is no consensus on when employee turnover is disadvantageous for the company. The Golden Rule or ethic of reciprocity, a maxim states that either one should treat others as one would like others to treat oneself or one should not treat others in ways that one would not like to be treated. A direct, inverse relationship exists between high job satisfaction, high organizational commitment and employee turnover; the higher the job satisfaction and organizational commitment, the lower the staff turnover. Indeed job satisfaction leads to organizational commitment*

Keywords: Business ethics, employee ethics, attrition rate, employee turnover ratio

I. INTRODUCTION

Business ethics (also corporate ethics) are a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of the organization. Business ethics have both normative and descriptive dimensions. As a corporate practice and a career specialization, the field are primarily normative. Academics attempting to understand business behavior employ descriptive methods. The range and quantity of business ethical issues reflects the interaction of profit-maximizing behavior with non-economic concerns

Business growth is the process of business expansion due to increasing overall customer base, increased output per customer or representative, new sales, or any combination of the above. Typically, the business growth rate also excludes the impact of foreign exchange. Growth including foreign exchange, but excluding divestitures and acquisitions are often referred to as core growth.

Business ethics is in discussion for its importance universally, so is the employee turnover in business. Unethical practices are unwanted, so is the high employee turnover. Unethical practices and high employee turnover in business is ubiquitous. No consensus exists on defining ethics. Employee turnover is well defined, but there is no consensus on when employee turnover is disadvantageous for the company. The Golden Rule or ethic of reciprocity, a maxim states that either one should treat others as one would like others to treat oneself or one should not treat others in ways that one would not like to be treated. A direct, inverse relationship exists between high job satisfaction, high organizational commitment and employee turnover; the higher the job satisfaction and organizational commitment, the lower the staff turnover. Indeed job satisfaction leads to organizational commitment

Importance of ethical climate

Employee works within specific company environment. An employee's view regarding to the values and norms, trails and other practices of an organization under the candle of ethics is called Ethical Climate (Schwepker, 2001). Environment can interact with several other factors to influence employees' decisions to either act ethically or unethically (Bommer et al, 1987). It has been argued that organization's ethical orientation can affect employees' attitude. Robin and Reidenbach (1987) argued that the key to success of any corporate culture is the selection and implementation of an organizational profile identified by core values, which eventually becomes an integral part of the organizational mission. On the ethical dimension of corporate values, Hunt et al. (1989) concluded that corporate culture equals the aggregation of ethical values of individual managers, as well as the formal and informal policies of the organization on ethics. The corporate ethical values are not just the underpinning of all other values relating to product and service quality, advertising content, selection of distribution channels, and treatment of customers, but also

help establish and maintain the standards that describe the 'right' thing to do and the things 'worth doing' (Jansen and Von Glinow, 1985).

Ethics affect organization in many ways. The clients will go away from the products and services of those organizations with unethical environment (Gilbert, 2003). Such practices are illegal, and consequently cause the firm's legal responsibility, economic risk, and expenses (Chan, 2002). Unethical environment affect employees through greater workplace stress, decreasing job satisfaction, also decreases job performance, and finally tends to turnover (Babin 2000). Schneider (1987) asserted that "the people make the place" and that organizational culture, climate and practices are determined by the people in the organization. Schneider contends that if an individual finds that they do not fit within the organization they selected, they will prefer to leave. When bottom line reflects higher costs, management begins to look ways to reduce the costs. Managers with high employee turnover and its associated costs are very high, but it also lowers organizational productivity. Thus ethics as exhibited good conduct & positive relationship with employees is a factor that enhances productivity. It is international concern & supported worldwide.

Organizational ethics encompass good conduct, equitable treatment and fair behavior among employees & between them & their employees. Since most individuals by their own decision rule strive to be ethical and successful, there exists positive relationship between the individual and perceptions of success and perceptions of support for ethical behaviour. It is likely that top managers reflect success in most organizations. Now, if there is a perception that top managers in an organization do not support ethical behavioral dissonance results. This dissonance contributes to dissatisfaction with existing conditions in the work place. Liking and disliking of something is a natural phenomenon. Mostly people like or dislike something because of a reason. This feeling of liking or disliking behaves in the shape of attitude.

Researches supports that the results of attitudes is behavioral intentions (Ajzen, 2001). Because of this as satisfaction of jobs is that attitude which comes from the workers estimate about the conditions of their jobs, which is strongly attached with employee turnover intentions (Spector, 1997). Attitudes sometime lead to intentions, so if employee is dissatisfied in his job or he doesn't like the environment or his fellow worker will most probably go for intent to leave his job. This well established negative relationship between job satisfaction and turnover intentions is also endorsed by Mulki et al, 2006. In real life employer may have low or high ethical standard and employee may have preference of high or low ethical standard. So, along with similar likes and dislikes of low or high ethical standards, exceptions are also observed

Averse (Low Ethical Standard but High Employee Turnover)

Company under the category have low ethical standard but high employee turnover. The dictionary meaning of 'averse' is having a strong dislike of or opposition to something. Employees of such company do not endorse low ethical practices. These companies may have profiteering motive. In this type of companies attitude of the employees have mismatch with the employer. The management of 'averse' company may be unqualified to gauge the pulse of employees expectations, which is socially acceptable and may lack of vision. The employees may be otherwise qualified and may have long term career goal, and good market opportunities for them self. The employee of 'averse' company disregard employers' probably low ethical standard or business environment provided by their employers.

High turnover is related to employee dissatisfaction with the job. Some specific reasons might include low pay, poor working conditions, long hours, not enough benefits or a negative atmosphere, especially from higher authority. There are three factors that are predictors of employee misconduct: pressure to perform, observed misconduct and dissatisfaction. Further, the distracting power of ethical lapses can create friction, dissonance and distraction that can get in the way of productivity. A significant percentage of employees witness unethical behavior on the job, and most are affected in some way by the behavior. It is important for companies to not only create programs and mechanisms to prevent ethical lapses but to do the same to effectively detect, respond, root cause and correct ethical lapses in consistent and timely ways.

Hypothesis

H_0 : Position level in organizational hierarchy is statistically dependent on the age of the employee.

H_A : Position level in organizational hierarchy is not dependent on the age of the employee.

Note: Organizational hierarchy is proxy variable for employer's ethics and age is the proxy for employee ethics

Data Analysis

In order to understand the use of econometric analysis in Human Resource department we've used secondary data collected by the HRD of the firm. The particular data is of one of the subsidiary of Mahindra & Mahindra group. The data comprises of total 924 management employees. Data contains all three management levels namely low level, mid level and top level management. The researchers have further classified the levels as following executive level is ordered or ranked as 1. The strategic level is ordered as 2. The operational level is ordered as 3. The managerial level is ordered as 4. Department head are ordered as 5. The president level is ordered as 6. The researchers intends to understand the effect of age on the order of hierarchy hence researchers have used ordered logistic regression to prove the hypothesis.

Ordered Logistic Regression¹

In statistics, the ordered logit model (also ordered logistic regression or proportional odds model), is a regression model for ordinal dependent variables and the purpose of the analysis is to see how well that response can be predicted by the responses to other questions, some of which may be quantitative, then ordered logistic regression may be used. It can be thought of as an extension of the logistic regression model that applies to dichotomous dependent variables, allowing for more than two (ordered) response categories. The proportional odds assumption is that the number added to each of these logarithms to get the next is the same in every case. In other words, these logarithms form an arithmetic sequence.[1] The model states that the number in the last column of the table – the number of times that that logarithm must be added – is some linear combination of the other observed variables.

The coefficients in the linear combination cannot be consistently estimated using ordinary least squares. They are usually estimated using maximum likelihood. The maximum-likelihood estimates are computed by using iteratively reweighted least squares.

Suppose the underlying process to be characterized is

$$y^* = \mathbf{x}'\beta + \varepsilon,$$

where y^* is the exact but unobserved dependent variable (perhaps the exact level of agreement with the statement proposed by the pollster); \mathbf{x}' is the vector of independent variables, and β is the vector of regression coefficients which we wish to estimate. Further suppose that while we cannot observe y^* , we instead can only observe the categories of response

In our analysis the dependent or the response variable is ordered from low level management to the high level management. The results of the same are given below.

positionranking	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
age	.1394687	.0097733	14.27	0.000	.1203134 .158624

Interpretations:

This is the proportional odds ratio for a one unit increase in age on position level given that the other variables in the model are held constant. Thus, for a one unit increase in age, the odds of high level position versus the other low level categories are 0.1394687 times greater, given the other variables are held constant in the model.

Hence from the above results we fail to reject the null and can say that organizational hierarchy is statistically dependent up on the age of the employee. In ordered logit the significance of the variables is done by using z -test. We use maximum likelihood method in logit so for it we use Wald statistic and Wald statistic assumes that errors are standard normally distributed and variance is related to the mean

Attrition Analysis for the year 2015 and 2016

FY 15				
Business Unit	Total	New Joinees	Exits	Attrition Rate
AFS-SOURCING & SPARES BUSINESS UNIT	371	29		
AGRI & ALLIED BUSINESSES	6	2	1	16.67%
AGRI BUSINESSES	335	96	42	12.54%
BUSINESS EXECLLENCE	49	8		
CONSTRUCTION EQUIPEMENT	157	38		
CONSTRUCTION EQUIPMENT & INNOVATION CELL	3			
INNOVATION CELL	3			
Grand Total	924	173	43	32.58%

FY 15				
Band	Total	New Joinees	Exits	Attrition Rate
L10-Operational	51	19	10	19.61%
L1-Strategic	1			
L2-Executive	5			
L2-Strategic	4			
L3-Department Head	29	3		
L3-Executive	10			
L4-Department Head	21	1	1	4.76%
L5-Department Head	45		1	2.22%
L5-Manual	82	2	1	1.22%
L6-Manual	84	6		
L7-Manual	143	24	4	2.80%
L7-Operational	177	38	7	3.95%
L8-Operational	144	35	9	6.25%
L9-Operational	127	45	10	7.87%
President	1			
Grand Total	924	173	43	69.81%

The attrition rate is calculated on the basis of exits of the employee only.

FY 16				
	Total	New Joinees	Exits	Attrition Rate
AFS-SOURCING & SPARES BUSINESS UNIT	371	9		
AGRI & ALLIED BUSINESSES	6			
AGRI BUSINESSES	335	76	32	9.55%
BUSINESS EXECLLENCE	49	3		
CONSTRUCTION EQUIPEMENT	157	31		
CONSTRUCTION EQUIPMENT & INNOVATION CELL	3	1		

INNOVATION CELL	3			
Grand Total	924	120	32	24.24%

FY 16				
	Total	New Joinees	Exits	Attrition Rate
L10-Operational	51	16	11	21.57%
L1-Strategic	1			
L2-Executive	5			
L2-Strategic	4			
L3-Department Head	29	1		
L3-Executive	10			
L4-Department Head	21	1		
L5-Department Head	45	2		
L5-Managerial	82	2		
L6-Managerial	84	7		
L7-Managerial	143	9	5	3.50%
L7-Operational	177	16	3	1.69%
L8-Operational	144	33	7	4.86%
L9-Operational	127	33	6	4.72%
President	1			
Grand Total	924	120	32	51.95%

Employee Sub group	Average of Age	Min of Age	Max of Age	total
L10-Operational	34	25	50	51
L1-Strategic	46	46	46	1
L2-Executive	54	51	58	5
L2-Strategic	54	47	60	4
L3-Department Head	48	40	58	29
L3-Executive	48	40	56	10
L4-Department Head	46	36	58	21
L5-Department Head	45	33	59	45
L5-Managerial	43	29	59	82
L6-Managerial	39	28	58	84
L7-Managerial	35	26	56	143
L7-Operational	31	24	56	177
L8-Operational	32	23	47	144
L9-Operational	32	22	46	127
President	51	51	51	1
Grand Total	36	22	60	924

Business Unit	Average of Age	Min of Age	Max of Age	total
AFS-SOURCING & SPARES BUSINESS UNIT	38	23	60	371
AGRI & ALLIED BUSINESSES	37	26	51	6
AGRI BUSINESSES	35	22	56	335
BUSINESS EXECLLENCE	37	24	55	49
CONSTRUCTION EQUIPEMENT	34	24	55	157
CONSTRUCTION EQUIPMENT & INNOVATION CELL	42	32	47	3
INNOVATION CELL	34	29	37	3
Grand Total	36	22	60	924

II. CONCLUSION

The company should aim at becoming exemplary i.e. high ethical standard and low employee turnover. Though it is mutual responsibility of employee and employer, the company should provide business framework for high ethical standard and business environment to reduce employee turnover. We suggest some ways to bring up the business ethical standard. The company should demonstrate importance of ethical conduct. Managerial practices promoting an ethical culture are the best way to imbibe ethics in employees. How management's actions reflect the company's values and principles is most important in penetrating the ethical values. The actions of higher management act as a visible role model on employees. The decisions, actions and behaviors of management convince the value a company places on ethical conduct.

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