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Understanding Reasons for Employee Unethical Conduct in Thai Organizations: A Qualitative Inquiry

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ABSTRACT

Of the recent trends in corporate governance, the ethical conduct of managers is one of the most challenging tasks facing business enterprises. This research identifies major themes in order to understand reasons for employee misconduct. From eight large size business enterprises, in-depth interviews were conducted among human resource managers who investigated severe unethical conducts in companies which results in employee termination. The findings indicate that the main reason of employee misconduct was identified with personal or financial gain. The main themes of misconduct are identified as social norms, process loopholes, small scale dishonesty and pressure for performance. The qualitative research findings identify emerging patterns of reasons for employee misconduct consistent with agency theory and psychological contract theory.

Keywords: Business Ethics, Compliance, Corporate Governance, Corporate Social Responsibility, Human Resource Management, Thailand

RESEARCH BACKGROUND

Business ethical conduct is a vital part of Corporate Social Responsibility (Carroll, 1991). As an integral part of the community, business has the moral responsibility to conduct business activities that are accountable to stakeholders, such as shareholders, customers, suppliers, government authorities, employees, and the public (Jones & George, 2008). If the firm fails to do so, it will find itself encountering survival threats while facing severe penalties or damage to the firm's reputation. Examples of such include the bankruptcy of Enron and WorldCom in the U.S. (Anand, Ashforth, & Joshi, 2004), customer boycotts (Nash, 1981), high employee turnover (Veiga, Golden, & Dechant, 2004) and public disaster (Gellerman, 1986).

Conceptually, business ethics practice can be contradictory to the traditional business belief of maximizing profit (De George, 2006). In addition, if the firm does not have the correct set of norms concerning ethical conduct, managers may indeed justify misconduct and socialize newcomers into corrupt practices (Anand, Ashforth & Joshi, 2004). Business leaders and human resource managers are requested to lead organizational integrity by being role models and taking affirmative action (Thomas, Schermerhorn & Dienhart, 2004).

At the international level, the issue of corporate governance has drawn great interest from international organizations worldwide. In the case of Thailand, one indicator for the competitiveness of nations gives the country a much higher ranking than it receives for ethical conduct. In 2007, Thai competitiveness ranked 28th among 131 participating nations, 1st being the most competitive nation (World Economic Forum, 2007). This contrasts markedly with another indicator on corruption perception which reports Thailand as having a significantly lower ranking of 84th among 179 nations, the 1st being perceived as the least corruption (Transparency International, 2007). This is supported by research conducted in Thailand indicating that both the public and private sectors are under criticism for their activities being intertwined with corruption (Phongpaichit & Piriyarangsan, 1994). At the same time, Thailand is ranked as one of the worst for software piracy in the Asia Pacific region with a piracy rate of 80%, with no improvement over the past 4 years (Business Software Alliance, 2006). These indicators suggest that there is a need to improve the current situation of unethical conduct through management practice in Thailand.

At the firm level, unethical conduct is more challenging than ever with stringent rules and regulations having been imposed on organizations elevating the business costs of ethical failure. For example, in the U.S. and Japan, business leaders are legally held accountable for the financial report (Sarbanes-Oxley Act, 2002). In Thailand, the Revenue Department has established an auditing unit specializing in large taxpayer organizations (LTOs). A recent study has indicated that the costs of ethical failures imposed on organizations are not limited to government fines and penalties, but may include customer defections, loss of reputation, loss of employee morale, increased employee turnover, government cynicism and further regulation (Thomas, Schermerhorn, & Dienhart, 2004; Cone-Roper Poll, 2002). In this study, the research aims to investigate the perceived reasons behind unethical practices and human resource practices to improve business conduct in Thai business organizations.

LITERATURE REVIEW

Business Ethics

Business ethics is the guiding principles on what is the “right” or appropriate way to behave in a situation (Jones & George, 2008). Companies use business ethics principles to guide employee business practices and to foster the desired organization culture.

There is no universally agreed definition of ethics, however, De George (2006) has proposed the following definition:

> Ethics is a systematic attempt to make sense of our individual and social moral experience, in such a way as to determine rules that ought to govern human conduct, the values worth pursuing, and the character traits deserving development in life (De George, 2006, p.19-20).

In practice, companies publish the desired corporate ethics and educate their employees on them. At the same time, the management of the workplace is encouraged to establish and maintain open communication, to reward desired behaviors and to take action against any wrongdoing.

Introduction to Employee Unethical Conduct

As concerns employment, the employee has the basic duty to perform his or her job with contractual and moral obligations. Employees are morally obliged to obey the law, moral and civil law at work and at other times. In ethics management, companies organize education and promotion programs including issuing the necessary documents such as the code of ethics, work rules and work procedures as employee practice guidelines. Despite these efforts, employee misconduct is not uncommon in organizations.

Basically, managers and employees have the good intentions to conform to acceptable social values. Most managers and employees behave by a personal code of conduct that includes certain principles about integrity, regard for others, and keeping commitments. Employees refrain from engaging in actions that might compromise their reputations, careers, or organizations. Unfortunately, at times, employees challenge the rules through their misconduct. It is a challenge to understand and predict employee misconduct in the workplace.

“Misconduct” is defined as “any behavior that violates the law or organizational ethics standards” (Ethics Resource Center, 2005). In 2005, the National Business

Ethics survey in the U.S. indicated that 52% of more than 3,000 workers observed one or more types of misconduct by their colleagues. In the same survey, 36% of employees saw at least two events in the same year.

Verschoor (2003) reported a study in the U.S. by the Association of Certified Fraud Examiners that fraud cost as high as 6% of revenue, which projected to a value of 600 billion dollars and an average of 4,500 dollars per employee. The survey indicated 80% of fraudulent acts involve asset misappropriation. Cash was the targeted asset 90% of the time, and the average scheme lasted 18 months.

Prior research has identified various forms of misconduct. According to organization exit surveys, employees have reported misconduct as illegal corporate activities, actions directed against employees, illegal human resource activities (racial/sexual harassment, mistreatment of employees having AIDS, etc.), smaller-scale dishonesty, and mistreatment of internal and external constituents (Giacalone, Knouse & Pollard, 1999). In another survey among 3,075 workers, additional observance were identified such as carelessness with confidential/proprietary information, activities posing conflicts of interest, substance abuse, embezzlement, and others (Kaptein & Avelino, 2005).

Theories on Misconduct in the Workplace

Scholars from multidisciplinary backgrounds have tried to understand and predict misconduct in the workplace. Studies were conducted on how and why misconduct occurred. Research can be separated into three important themes from the fields of industrial psychology and organization science. The three competing theories that are most influential in explaining human motivation towards misconduct are personality trait theory, agency theory, and psychological contracts theory (Kidder, 2005).

Personality Trait Theory

For trait theory, individual behavior is the result of inherited or acquired traits. Trait theorists subscribe to the premise that certain traits will be disposed to react to a given situation in a certain way (Kidder, 2005). Trait research has provided relative stable and predictable outcomes (McKenna, 1994; Kidder, 2005). For example, an individual with the personality traits of "conscientiousness" shows the qualities of dependability, carefulness and responsibility (Ones, Chockalingam & Schmidt, 1993).

In terms of criticism, trait theory has been questioned on its research design and on its ignorance of situational variables (Davis-Blake & Pfeffer, 1986; McKenna, 1994). Furthermore, research by McAdams (1992) has pinpointed the limitations of personality trait theory, namely its inability to predict behavior, its failure to provide causal explanations of behavior, its disregard of the contextual and conditional nature of the human experience.

Agency Theory

Agency theory has been developed from economic assumptions of self-interest behavior and utility maximization with consideration of the situations that influence employees' behavior. Agency theory suggests that the employer as the "principal" wants to obtain maximum performance from the employee as the "agent". This is in direct contrast to the employee, who is presumed to put in minimal effort. Therefore, agency theory assumes that agents will behave opportunistically if given the chance (Rousseau & McLean Parks, 1993). For example, employees will always shirk or misrepresent their capabilities if they can get away with doing so. Agency research provides managerial implications to set up proper monitoring or controlling mechanisms to reduce misconduct (McKenna, 1994).

Agency theory has been criticized for its assumption of overlooking intrinsic human motivations in a positive manner, such as employees' needs for achievement, exercise of responsibility and authority and recognition from peers, bosses and organizations (McClelland, 1961; Herzberg, 1959). From the organization behavior viewpoint, agency theory has two major limitations. Firstly, the agency theory lacks any consideration of the organization to facilitate effective actions by employees, such as providing clear, consistent role expectations, authority and empowerment (Donaldsons & Davis, 1991). Secondly, the theory underestimates the effective use of incentives as extrinsic rewards for good performance (Kunz & Pfaff, 2002).

Psychological Contract Theory

Psychological contract theory has been developed from social exchange theory. Psychological contract theory is the idiosyncratic set of reciprocal expectations held by employees concerning their obligations and their entitlements (McLean Parks, Kidder & Gallagher, 1998). For example, the employee will work for an employer with the expectation that they will receive something in return. Unlike agency theory, psychological contract theory considers trust in the organization by assuming that employees are honest and ethical. Misconduct occurs in an organization when the psychological contract is violated with perceptions of injustice or unfair treatment in the workplace (Kidder, 2005). In other words, honest and ethical employees may commit acts of misconduct when they feel that they work in an unjust environment and that their trust has been violated (Morrison & Robinson, 1997; McLean Parks & Kidder, 1994).

In terms of criticism, the theory is criticized on its ignorance of differences on situational factors, such as moderating the effect of attractive factors to employees. For example, when there is a violation of justice or fairness, the employee may choose to leave the company for an attractive job elsewhere rather than commit misconduct (Kidder, 2005; Turnley & Feldman, 1999).

Employee Misconduct

"Misconduct" is defined as "any behavior that violates the law or organizational ethics standards" (Ethics Resource Center, 2005). In terms of ethics management in organization, employee misconduct is a form of negative or unacceptable behavior by employees that is detrimental or harmful to the organization (Kidder, 2005). Employee misconduct or unethical conduct behavior has a wide range of levels of impact upon an organization, ranging from small-scale dishonesty to corruption and fraud for personal gain. Low impact misconduct includes small-scale misbehavior by employees with no significant impact upon peers or organization. At this level, the employee may merely deviate from organization norms or regulations, such as spending an extra 5 minutes on break or occasional use of company telephone for personal matters.

High impact misconduct covers illegal acts by employees that may impact the organization's reputation, the loss of significant property or the threat of company survival that require the organization to take immediate action. Such acts include employee fraud, misuse of company property, disclosure of trade secrets, embezzlement, sabotage of products or use of company property for personal benefit (Ivancevich, 2007). From the organization's point of view, it is necessary to take disciplinary action and preventive measures against high impact employee misconduct that is harmful to others or the organization.

RESEARCH OBJECTIVES

To understand the reasons for employee unethical conduct with high impact to organizations in large size companies in Thailand.

SIGNIFICANCE OF RESEARCH

In order to improve ethical conduct in organizations, there is a need for managers to understand reasons for employee misconduct. Following literature review, there are conflicting results on available theories on business compliance and white collar crime in organizations. This research attempts to identify operating themes from recent phenomenon. This study aims to obtain the necessary information useful for organizational leaders and human resource managers to understand employee misconduct and to design preventive and corrective measures against misconduct. At the same time, findings are important for future quantitative research for test of universality.

In addition, a prior search of the available literature reveals that there has been no similar study conducted in Thailand. Prior research in Thailand has focused on an understanding of corruption practices and legal mechanisms for administrative improvements, mainly in public management (Phongpaichit & Piriyarangsan, 1994; Ockey, 1994). There is a need for an exploratory research in Thailand pertinent to employee unethical conduct in business enterprise for improvement of ethics management.

QUALITATIVE RESEARCH METHODOLOGY

Interviews were conducted among 8 human resource managers who have direct experience of the management of unethical conduct, including the investigation of misconduct, disciplinary action and employee terminations (Table 1 demonstrates the Informant Profiles). "Snowball" sampling or use of referrals were used to identify qualified respondents.

Table 1 Informant Profiles

Pseudonym	Age	Gender	Position	Industry
A	37	F	HR manager	Consumer Product
B	42	F	HR & administration manager	Paint manufacturer
C	43	M	HR Director	Hard disk manufacturer
D	32	F	HR manager	Electricity generating contractor
E	42	F	HR Director	Ice cream manufacturer
F	35	M	HR Manager	Beverage manufacturing & sales
G	40	M	HR & Administration manager	Electronics manufacturer & exporter
H	38	M	HR consultant	Business consultancy

Prior to interviews, respondents were informed about the research objectives, methods and use of data. Respondents were asked to recall recent incidents of severe employee misconduct that resulted in employee termination. It was requested that respondents provide answers for cases in which they were directly involved in over the past year. This is to ensure that the respondent can provide in-depth information on the circumstances, motives and consequences of the misconducts.

The guidelines for the interviews are as follows:

- What incidents of severe unethical conduct occurred in your company that resulted in termination? Please describe the circumstances.
- In your opinion, what were the main reasons for the misconduct happening? What else?

With the permission of participants, interviews were recorded and transcribed. Transcription was manually coded and analyzed to identify the emerging pattern of various forms of employee unethical conduct. Interviews are conducted in Thai language and English back translation was performed on respondent verbatim in the findings. Inductive analysis was performed to generate common themes of reasons (monetary incentives, social norms, process loopholes, small scale dishonesty and pressure for employee performance).

RESEARCH FINDINGS

Findings

Regarding unethical conduct by employees, all respondents reported that companies considered severe incidents to be intended misconduct involving cheating, misuse of authority and dishonesty for personal gain. Almost all cases resulted in cash equivalent benefits from misconduct and hence constituted severe breaches of company work rules and code of ethics resulting in employment termination. There was one reported incident of wrongdoing concerning misuse of company assets (email).

Monetary Incentives

From the interviews, human resource managers reported that “monetary incentives” are the most important motive for wrongdoing.

> “In my experience, the root cause of all misconduct involving financial transactions comes from the desire for personal gain. Whether it be direct cash pocketed as “corruption” or indirect benefit from use of position power to earn

extra income from transactions, these employees have committed acts of misconduct after calculating the benefits and assessing the risks (HR Director, hard disk manufacturer)."

"Cash is cash. An employee can be tempted into committing a wrongful act if the person has been working in the position long enough to understand the process (HR and Administration Manager, paint manufacturer)."

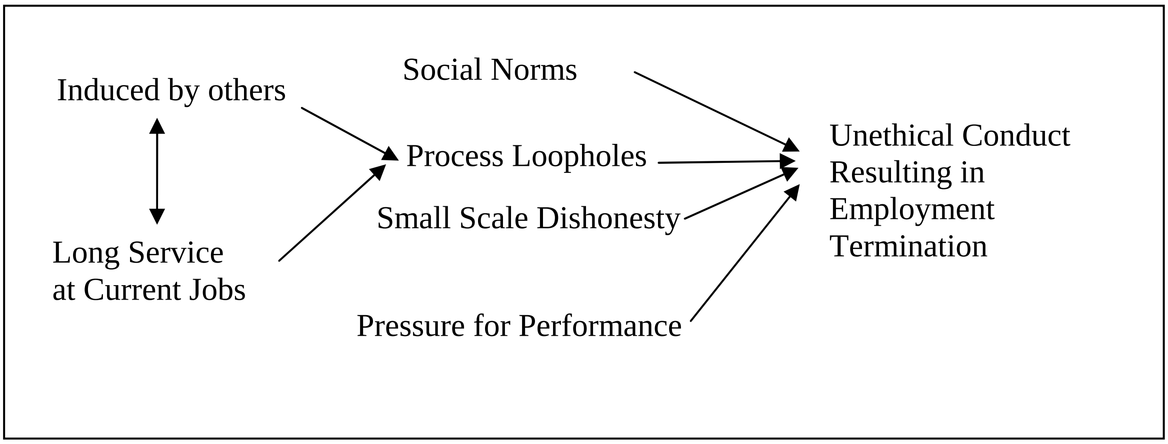

Figure 1 Major Themes of Employee Misconduct from Qualitative Analysis

Social Norms

In some jobs, employees are required to report their services to the company in order to get paid, whether on an hourly basis or per piece compensation. For control purposes, companies have created administrative processes for employee self-reporting systems. As a result, the group of employees may see possible loopholes and justify their acts of wrongdoing. Eventually, the misconduct becomes common practice among the job holders and pervasive throughout the organization.

"In my company, I found a driver who exaggerated his overtime report for himself to get more regular overtime pay. During investigation, the wrongdoer did not feel any guilty, and repeatedly reasoned that he was doing the same thing as what others had been doing (HR manager, electricity generating contractor)."

"One time, a salesman cheated on the hotel bills as his allowance for upcountry travel. In our company, we provide travel and hotel allowance of 700 baht per night. That salesman got blank receipts from the hotel and wrote down the hotel expenses without actually being present in that province. During investigation, he said he had stayed overnight at friend's home to save costs and benefited from the cash allowance from the company as extra income. This is what many salesmen are doing in his region (HR manager, consumer product)."

Process Loopholes

As regards the general reasons behind misconduct for financial gain, the theme of process loopholes emerges from two main streams. Firstly, the employee may be convinced into committing an act of misconduct by job stakeholder, especially from a supplier or from a friend with the offer of mutual financial benefits. Secondly, the wrongdoer tends to be a long-serving employee in their job position. They can be highly educated, of a senior position and well-respected within the company.

Process loopholes as induced by supplier

"I have received anonymous mail reporting corruption at our administration department. The subject of the complaint was the administration manager in charge of transportation who had been receiving monthly pay from our supplier (kick-back money). The supplier issued an ATM card using a third person's name to be given to the administration manager. On monthly basis, a sum of 20,000 baht would be deposited to that savings account, so that the administration manager could withdraw the money freely without being traced. The transaction was not made under the administration manager's name. I think the idea must have come from the supplier who had acted similarly at other companies. This was well-planned. We could not have come up with any clue or evidence if the anonymous mail had not reached us (HR Director, hard disk manufacturer)."

Process loopholes resulting from long service

"At the sales department, it was common to see the salesperson abuse their authority for commercial purposes. For example, I was involved in the investigation of a salesman who falsified his bad debt report. He deliberately gained cash from the report of bad debt collection from the dealer (the company suffered from loss of inventory). By doing so, he gained cash from the full payment of goods from the dealer. The salesman had been with the company long enough to understand the process and know the system of company monitoring. He was smart enough to plan the transactions and get away with it in the past (HR Director, ice cream manufacturer)."

"At a regional office, a cashier was given the authority to use petty cash of up to 5,000 baht for operation use. It was unlucky for her that we found the cash missing (account did not balance) for three days in a row. The cashier lady refused to accept any wrongdoing on her part in the investigation. The day after my visit as part of the investigation, she wrote me a letter to apologize. She worked under the finance department and understood the rules, process and the consequences of her actions well. The lady worked in the position long enough to know how to take financial advantage (HR and Administration Manager, paint manufacturer)."

Process loopholes as induced by supplier and long service

"Once, an anonymous mail was sent to report corruption in the purchasing department. The purchasing manager was accused of receiving money from the supplier for tooling purchase (assembling equipment). Human resource conducted an investigation and found suspicious behavior. In such a short period of time, the purchasing manager became wealthy and had mistresses. The investigation led to a supplier who seemed to be related to one of his mistresses. Finally, a private investigator was able to trace the money in question transferred to the mistresses' account and then later to the purchasing manager's savings account. The purchasing manager denied any wrongdoing, but was willing to resign to avoid legal confrontation. I believe that the manager was in the position for a long time, and knew the process well enough to take advantage. The bad news broke when he was in conflict with the particular supplier, then an anonymous mail was sent to the company's authority. Otherwise, there would've been little chance that we'd have known about the incident (HR director, hard disk manufacturer)."

Small Scale Dishonesty

On occasions, managers are given responsibility for company property or assets. In cases where assets are of low cost or little commercial value, the manager may feel that it is alright to take some assets for personal use. The manager may justify the wrongdoing by reasoning that such misconduct is small scale dishonesty that does no harm to the company as a whole.

"The customer relationship manager normally purchases various premiums (as gifts) to be given away to consumers for marketing purposes such as consumer promotion activities. The premiums vary in value from gift vouchers, hotel coupons, spa treatments, free movie tickets, novelties, and so on. The company found the budget to have been noticeably overspent and the stock of premiums was unreasonably high. During the investigation of the customer relationship manager, she confessed to taking possession of some of these premiums. The main reason she gave was that some of the premiums may have expired without being utilized. For example, movie tickets or spa treatments have expiry dates and the company may not have been able to utilize them on time. The manager felt that it was alright to use them for personal gain (HR manager, consumer product)."

Pressure for Performance

At managerial position, the employee feels some degree of pressure to meet job expectations, such as meeting sales targets, performing correct budget expenditures, conducting activities on time. These pressures may lead to unethical conduct by an employee, whereby he/she has chosen to commit an act of misconduct in order to fulfill the job requirement.

"Last year, the brand manager was caught overspending the advertising budget in December. She was spending the whole of the remaining budget of about five million baht for printing material that was never used. A lengthy investigation was conducted to understand how and why she did that. As brand manager, she was given an approval limit of 20,000 baht per transaction. She managed to issue numerous purchase orders to supplier (also her friends) and utilize all the budget for the year. During investigation, she denied any wrongdoing, until human resources threatened her with legal action. Upon confession, she claimed that she had to spend all the money within the year because this is one of the key performance indicators for the job. Even though, it is hard to believe that this is the primary reason, there is some substance to it (HR manager, beverage product)."

QUALITATIVE RESEARCH CONCLUSION

The qualitative research findings indicate major themes in employee misconduct within business enterprises, which are identified with personal or financial gain. The main themes of misconduct as reported by human resource managers are *social norms*, *process loopholes*, *small scale dishonesty* and *pressure for performance*. From these findings, the qualitative information suggests that the reasons for employee unethical conduct are consistent with those provided by psychological contract theory and agency theory.

Of the themes emerging from this research, *social norms* and *pressure for performance* are consistent with psychological contract theory as previously found by Veiga, Golden & Dechant (2004) in their U.S. study. For *process loopholes* and *small scale dishonesty*, the themes are consistent with agency theory where the employee is an opportunistic individual that seeks to maximize personal gain whenever possible (Kidder, 2005).

DISCUSSION AND MANAGERIAL IMPLICATIONS

This research attempts to investigate managerial perceptions of employee misconduct in organizations. The research findings reveal that employees committed acts of unethical conduct because of greed, financial benefit, or other individual motivations. The findings indicate that there is a lack of effective monitoring mechanisms in Thai business enterprises to discover employee misconduct and corruption. Managers generally become active on employee misconduct only after receiving anonymous mail or reports of misconduct.

Based on the basic premises of agency theory, Rousseau and McLean Parks (1993) suggest that people act in their self-interests and balance the risk with consideration of the situation. The implications from the research findings to top management and human resource managers are that they need to ensure proper management control systems to minimize any wrongdoing. McKenna (1994) has suggested companies perform monitoring or create control mechanisms within the company to reduce or discourage misconduct. In addition, periodic review of rules and extensive communications are required to ensure compliance with business practices.

FUTURE RESEARCH

For future research, it would be useful to investigate this subject further in different aspects. Firstly, a quantitative survey can be conducted to identify reasons for employee misconduct by comparing employee profiles and job profiles. For example, the research findings have found that employees may enter into misconduct after a number of years of service when he/she is able to identify a loophole in company transactions. It would be useful for human resource manager to use the information for organization design and policy.

Secondly, it would be useful to adapt a multidisciplinary approach to understand and predict employee unethical conduct, such as learning from psychology and criminology. Further exploration into other fields will enable human resource professionals to understand the root causes of misconduct. The integration of different bodies of knowledge would be useful to improve measurements and preventive and corrective actions for unethical conduct.

LIMITATION OF THE STUDY

This research aims to explore the reasons for employee unethical conduct by conducting personal interviews with eight human resources managers in large size business organizations. The analysis and findings are useful for further confirmation by future quantitative study. The results and implications are limited to generalizations of all business communities in Thailand.

This paper presents the views of human resource managers without consideration of views of employees. Therefore, the findings are subject to the limited viewpoint of those with authority rather than the viewpoint of the wrongdoers, which may be influenced by other potential pressures from the organization's environment.

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