How to Motivate Employees' Ethical Behavior
-----Based On Management Control Theory

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Abstract: Ethical behavior will affect a company's performance for the long term while the short term benefits of unethical behavior might look positive, which influences more and more companies and scholars to find a way to motivate employees' ethical behavior. Of the current literatures, a majority is found on the issue of corporate codes of ethics. Even though some of the studies give some suggestions on shaping ethical behaviors, few are base on academic theory. In this paper, we try to prove how applying a management control theory to motivate employees' ethical behaviors, a company could shape ethical behavior by creating an ethical code of conduct to specify its objective, building a training program to communicate the ethical objective, setting up an ethical committee, ethical auditing to monitor employees' behavior, and building ethical reward systems to reinforce ethical behavior, at the same time, it requires the company's culture to support the ethical control systems.
Keywords: Ethical Behavior, Management Control Systems, Culture

1 Introduction

Nowadays, companies face a variety of challenges that will have a profound impact on performances; ethical behavior is one of these challenges. A lot of cases show that employees' unethical behavior undermine companies' performances, which incent more and more far-sighted companies to pay more attention to 'ethics', there is a growing recognition among business leaders that 'good ethic is good business'(Kelly, 1989), but still many companies fail to prevent unethical behavior. Since 90s', scholars try to figure out what influence employees' ethical decision making and how to shaping ethical behavior. W. Edward Stead, Dan L. Worrell and Jean Garner Stead (1990) indicate that employees' ethical behavior are influenced by individual and situational factors, managers can manage ethics by espousing ethics, behaving ethically, developing screening mechanisms, providing ethical training, creating ethics units and reinforcing ethical behavior. Ferrell and Gardiner (1991) give six suggestions for improving ethical behavior in their book. Ronald R. Sims (1992) highlights the important of an organizational culture to guide the employees' ethical behaviors. Of the current literature found on the topic of ways organization can influence ethical behavior, a majority is found on the issue of corporate codes of ethics. Margaret Anne Cleek, Sherry Lynn Leonard (1998) indicates that the ethical codes have not influential in determining a person's ethical decision making by survey 150 business students at a large university. Betsy Stevens (2008) reviews studies of corporate ethical codes published since 2000 and concludes that codes can be effective instruments for shaping ethical behavior and guiding employee decision-making, culture and effective communication are key components to a codes success. The effective of ethical codes is disputed by scholars, but more and more scholars realize that effective ethical codes need to be woven into the entire fabric of corporate mechanism. Murphy, Patrick E (1988) indicates ethical code doesn't guarantee employees' ethical behaviors, company should both organize ethical business policies and execute them, both structure and culture are necessary to shape employees' ethical behavior. R. Murray Lindsay. Linda M. Lindsay V. Bruce Irvine (1996) base on the premise that an organization's management control system can play an important role in directing and influencing employees to pursue ethical behaviors, they investigate 177 Canadian companies, find out that ethics related control mechanism, however they didn't demonstrate how to instill ethical behavior into organization according to the control theory.

Ethical behavior can't happen by nature, companies should adopt measures to motivate employees

behave ethically. In this paper, we try to apply to management control theory to shaping employees' ethical behaviors.

2 Ethical Behavior and Management Control Systems

Ethics is a philosophical term derived from the Greek word 'ethos' meaning character or custom, this definition is germane to effective leadership in organizations in that it connotes an organization code conveying moral integrity and consistent values in service to the public (Ronald R Sims,1992). Ethical behavior is that which is morally accepted as 'good' and 'right' as opposed to 'bad' or 'wrong' in a particular setting (Ronald R. Sims,1992). Employees' behaviors are not only influenced by their values, but also the culture and mechanism of the companies. (Jackall, R 1988) declaims that unethical actions of managers do not result from individual moral deficiencies alone, but are encouraged by the bureaucratic structure of modern corporations. Even the most upright people are apt to become dishonest…when placed in a typical corporate environment (Frederick). Thus, companies play an important role to encourage managers to behave ethically, and management control systems can shape the ethical behavior.

Management control systems are designed to influence employees' behaviors in desirable ways and consequently, increase the probability that the organization will achieve its goal (Kenneth Merchant, Wim Van der Stede, 2007). A MCS consist of three components (Otley and Berry, 1980; Emmanuel et al, 1990), specifying and communicating objective, monitoring performance, and motivating employees to achieve objectives by linking the reward system. These three components are necessary, MCS can't work without any of them. The first component states the aim of the company and the measurements of the objectives; the second component provides the feedback and enables the company to monitor the actions that achieve objective; the final component serves to motivate the employees perform the desirable behavior and enhance the 'right' actions.

As mentioned above, many companies still fail to motivate ethical behavior, they may only paying lip service to the important of promoting ethical behavior (R. Murray Lindsay. Linda M. Lindsay V. Bruce Irvine 1996). Some may just pass down ethical codes to their employees, without monitor the implementation and motivate the ethical behaviors. To build a control system to shape employees' ethical behaviors, a company should create codes of ethic to specify objectives, employees training to communicate objectives, ethics committee and ethics audit to monitor and ethical reward systems to enhance the ethical behavior.

3 Create Ethical Code of Conduct

A code clarifies what is meant by ethical conduct and establishes standards for employees to gauge their behavior. Although debate about if ethical codes is effective or not continue. Even thought, research indicates that approximately 90 percent of Fortune 500 firms and almost half of all companies have codes in place (Center for Business Ethics, 1986; Murphy, 1986). The existence of the codes in the companies provides a frame of reference for the behavior. "An ethics program includes a behavior-specific code of conduct that the association's members are required to follow ..." (Larimer, 1997). To create a code of conduct, it would require the following characteristics. First of all, codes must be specify, employees need guidance in interpreting their actions, if codes are too general, it will confuse the employees when occurring ethical situations. For example, if companies state that managers can give and receive a gift of 'modest' value, it is difficult to determine how much is 'modest', but if companies define employees can give and receive gift less than 100 dollars, that would guide the employees' behavior better. Second, codes should be understandable, which means it not only tell the managers what they should do when occur ethical situation, but highlight the reason why they should follow the code. Finally, the codes should be revised periodically, that is, they should be living documents and

updated to reflect current ethical problems.

4 Establish Ethical Training Program

After creating the ethical code, does it mean the managers understand the code and can deal with the ethical issue by themselves? Codes do not work when they are written by management and passed down to employees as a mandate. Both Adams and Rachman-Moore(2004) and Weeks and Nantel (1992) recognized the interrelationship between codes and communication. They saw that codes could be effective if communication channels were effective. Training is an effective way to communicate codes with employees. To develop a well training program, an organization must enable employees completely familiar with the specification of codes, ethical issues, legal regulations. In other words, an effective training program should properly educate employees understanding of the code and how to deal with the specific ethical issues.

Communicate the ethical code is the important part of a training program, moreover, it is important for companies to help the managers to build a right value by training. Companies might be able to train managers how to solve an ethical problem, but it is impossible to tell managers how to deal with all ethical situations, to build a right value is necessary when managers involve in the situations which are not stated by the codes. "For moral or ethical education to have meaning there must be agreement on the values that are considered right" (Brackner, 2008). The right value should include both the right behavior and the right motivation. "Ethics isn't just about doing the right thing. It's about doing the right thing for the right reason" (Maxwell, 2006). Therefore, the right value should be viewed as a complete scheme which needs the right reason to support the right thing. Otherwise, something looks right or legal might cause unethical impact because of an improper motivation, for example, someone who exploits a loophole in a law. "When you do the right thing for the wrong reason, and then the wrong reason no longer applies, you won't do the right thing anymore" (Maxwell, 2006).

Meanwhile, if a training program can develop different challenges and requirements for various level or hierarchy, can this ethical training program be considered to be complete and practical? "Ethics training is more useful in helping junior employees feel prepared to handle misconduct than it is for senior employees, indicating that training needs to be tailored to the different employee levels. Upper management may need advice about how to demonstrate their commitment through action, while junior employees need instruction about how to handle specific ethics challenges (PR Newswire, 2006). Truly, developing particular details for people in different level could help them deal with the different ethical issues.

5 Set up Ethical Committee and Ethics Audit

As the study by the National Institute of Business Management (1987) explains, a good ethical program cannot be patchwork in nature; it needs to be woven into the entire fabric of corporate life. Failure to seriously monitor the performance of individuals on the ethical plan will leave codes of conduct operating in a vacuum, of little use in actually promoting ethical behavior. Most of companies build ethical codes of conduct to guide their employees, but not so many companies pay attention to the feedback. Without meaningful feedback, management is not in a position to ascertain whether organizational behavior is consistent with the codes. An ethical committee and ethical audit are good ways to monitor the implementation of ethical behaviors. An ethical committee is a formally specified group of employees responsible for developing, updating and enforcing the code of ethics (CBE, 1986; Murphy, 1988). Motorola has a Business Ethics Compliance Committee that is charged with interpreting, clarifying, communicating and adjudicating the company's code. Ethics audit just as financial and marketing audits seek to gain information about these functions, an ethical audit would pose questions about manufacturing practices, personnel policies, dealings with suppliers, financial reporting and sales

techniques to find out if ethical abuses may be occurring. The benefit of the ethics audit is "to make it virtually impossible for employees to consciously make an unethical decision"

6 Build an Ethical Reward System

One of the most basic concepts of management principles states that if you desire a certain behavior, reinforce it. Using rewards and discipline effectively may be the most powerful way to send signals about desirable and undesirable conduct. That means rewarding those who accomplish their goals by behaving in ways that are consistent with stated values. How ethical behavior is perceived by individual and reinforced by an organization determines the kind of ethical behavior exhibited by employees. Therefore, if business leaders want to promote ethical behavior they must accept more responsibility for establishing their organization's reinforcement system. Research in ethical behavior strongly supports the conclusion that if ethical behavior is desired, the performance measurement, appraisal and reward systems must be modified to account for ethical behavior. Accounting to Nielsen (1988), in many cases, managers choose to do, go along with or ignore the unethical... because they want to avoid the possibility of punishment [or] to gain rewards...'

As a formal way to shaping the employees' ethical behavior, management control systems play an important role, but it is impossible to implement MCS of ethics if the company's culture not support the ethical behavior. The control of ethics is an aspect of the entire control systems, if the company's culture is to award the one who achieves great financial accomplishment but will violate ethical standards, and then the system will work in a vacuum. As we know, some people may be trained or educated with proper ethical knowledge or value and further willing to follow a moral code of conduct to behavior ethically, but fail to maintain or continue to perform ethically due to the stress from upper managers or the impact from peers or coworkers. Therefore, to be a successful in the business world, an organization should be able to effectively aware the importance of having a culture of ethics and further come out with strategy to acquire this culture.

It is increasingly clear that the ethical culture of companies is set at the top, what top managers do, and the culture they establish and reinforce, makes a big difference in the way lower-level employees act and in the way the organization as a whole acts when ethical dilemmas are faced. Surveys of different business executives indicate that the management's behavior, more than anything else, sets the ethical tone of a firm. In other words, employees take their cues from their management. If a firm's managers adhere to obvious ethical norms in their business dealings, employees will likely follow their lead. In contrast, if managers act unethically, employees will see no reason to behave any differently. For example, an employee who observes a manager cheating on her expense account quickly learns that such behavior is acceptable (Cross & Miller, 2007). To build a culture for the ethical behavior, the top managers need to behave ethical and set an ethical climate for entire company.

7 Conclusion

Although unethical behavior will not ruin company's short-term performance, it has a profound impact on their long-term performance. This paper tried to show an approach of how to apply to management control theory in encouraging managers' ethical behavior, a company can motivate the ethical behavior by creating an ethical code of conduct to specify its objective, building training program to communicate ethical objective, setting up ethical committee and ethical audit to monitor employees' behavior, and building ethical reward systems to reinforce ethical behavior, at the same time, it requires the company's culture to support the ethical control systems. Like all studies, this study has limitations which should be considered need empirical research to prove, and the further study can be focus on how the management control systems of ethics embed in the entire systems, and what kind of culture is supportive for the systems of ethics.

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