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HOW MANAGER'S ETHICAL DECISION-MAKING IS AFFECTED BY INDIVIDUAL AND ORGANIZATIONAL VARIABLES?

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ABSTRACT

The main objective of this study was to investigate how manager's ethical decision-making is affected by individual and organizational variables in governmental organizations in Shiraz. This study is an applied research in terms of its objective and a causal-survey research in terms of the method of data collection. The research population included all experienced and knowledgeable staff in the field of research problem, who were working in governmental organizations in Shiraz and their number was reported to be 750 individuals. The sample size, according to the Krejcie and Morgan table, was calculated as about 256 employees who were selected through cluster random sampling. The results of regression analysis showed that individual variables (including age, gender, experience, and education) and organizational variables (including organizational climate, organizational culture, and compensation system) have a significant effect on ethical decision-making by managers. This empirical study contributes to the research on manager's ethical decision-making by examining it in relation to individual and organizational variables.

Keywords: Individual Variables, Organizational Variables, Managers' Ethical Decision-Making.

INTRODUCTION

An ethical decision is a decision that is both legally and ethically acceptable in a larger community or has consequences that affect the well-being of colleagues (Mahdavi & Mousavinejad, 2011). Jones introduces the moral decision as a decision that is both conscientiously and legally acceptable to a large segment of the society. Moral principles are beyond the law and guide the resolution of conscientious problems with fairness and the right solution. Ethics takes into account the rules and guiding standards related to the laws of moral philosophy (Amirshahi et al., 2011). Ethical decision-making reflects the individual's actions based on his unique view (Radcliffe, 2011).

Various factors may affect ethical decision-making in the organization. These factors include organizational culture, individual values, available conditions and options, Machiavellianism, personality, intention, economic environment, professional environment, state/legal environment, ethical situation/severity of the issue, job experience or employment status, reward and punishment based structure, organizational policies, organizational charter, ethics training programs, ethical work environment, centralization, control, size of organization, lack of forgiveness in the environment, organizational goals, organizational climate, cognitive moral development, and many other factors (Siahkal Rudi et al., 2015).

Studying and recognizing managers' personal characteristics of managers is very beneficial, to the extent that it can be pointed out that personal characteristics are one of the factors that can affect the behavior of managers, make their performance distinct, influence their supervisory method, and ultimately lead to decisions that are influenced by the manager's personal characteristics. On the other hand, considering that decision-making is dependent on organizational features and personal characteristics of managers, it can improve employee's performance and increase the productivity of both employees and the organization (Musbah et al., 2016).

Human behavior has various aspects that make human be always identified as a complex being and make his behavior and actions difficult or impossible to predict. The failure to predict human behavior is mostly due to a lack of understanding of the nature of the personality of individuals and their individual differences; the personality that forms in childhood and serves as a mold for shaping human behavior. The complexity of this mold is such that it invokes a variety of behaviors and creates new challenges to be faced by planners. In a given situation, each person's individual characteristics make him behave in a manner that suits him. Since individual characteristics can be matched in totally different and multiple forms, it can be expected that there will be different responses in a given situation (Nekooei & Firmodari, 2010).

As it was mentioned above, in addition to individual variables and attributes, organizational variables also affect managers' ethical decision-making. This study will examine the effect of organizational culture, organizational climate, and compensation system as organizational variables.

A moral decision-making process begins when a person faces a moral dilemma. Then, the person makes a judgment (depending on which stage of Calberg's moral development he has been positioned) and forms his behavioral intentions (that these behavioral intentions are based on the assumption that they are predictors of real behavior). This process is influenced by individual and situational factors and is contingent on the subject matter at hand (Mahdavi & Alipour, 2010).

In the present age which is called the "knowledge-based age", organizations must take new approaches in order not to leave behind civilization and to achieve sustainable development. Making appropriate decisions and the efficient use of human resources is considered essential in this regard, and ethics-centeredness because of its positive effect on organizational decision-making systems is of great significance in this regard. In other words, recognizing ethical models and schools, along with providing appropriate contexts for creating a platform for decision-making based on values and professional ethics, is an effective action in the field of management processes. Accordingly, observance of ethical principles in the workplace has become increasingly manifested in the world at the level of organizations (both public and private), educational centers, profit and nonprofit entities, and so forth. Considering the discussed issues, the present study explores the role of individual and organizational variables in the ethical decision-making of managers in governmental organizations in Shiraz. The main question addressed in this study is as follows: Do individual and organizational variables have a significant impact on managers' ethical decision-making?



THEORETICAL FRAMEWORK AND LITERATURE REVIEW

Organizational climate is somehow employees' understanding of their own organization. Organizational climate as one of the variables affecting organizational participation refers to a relatively stable set of organization members' perceptions about the characteristics of the organization's culture and this perception affects the feelings, attitudes, and behaviors of individuals in the workplace. Inappropriate organizational climate can be a major source of psychological pressures, and if these pressures are excessive in the organization, it will undermine the human resources of the organization, threaten organizational goals, and lead to a decrease in the quality of performance and the level of participation of the individual. In contrast, in a desirable organizational climate, employees are proud to cooperate with their organization, work well together, and perform the organizational affairs more perfectly (Ahmadi et al., 2015).

Organizational culture is a set of shared assumptions, beliefs, and values among the members of the organization that determine the organization's behavioral pattern and makes the organization distinctive from other organizations (Hamdi et al., 2009). Organizational culture, like the national culture, is the main feature distinguishing organizations from one another both nationally and internationally, and makes members committed to the goals of the organization. Culture, through its impact on different components of the organization, can determine the fate of organization. Therefore, it is necessary for organizations to pave the way for their manager and employees to become familiar with the dominant culture and appropriate decision-making style (Sarhadi, 2014).

Compensation system is a system that connects employees' performance and their pay from the organization. Appropriate design and implementation of this system can play an effective role in creating satisfaction among employees. It should be noted that employees' compensation does not only mean material and financial aspects, but also it includes the promotion system, rewards, and other motivational factors (Newman and Sheikh, 2012). The performance-based reward increases competent employees' satisfaction and encourages them to stay in the organization because they love an environment in which their performance is rewarded, and this improves individual performance and ultimately organizational performance (Roghani et al., 2012).

Musbah et al. (2016) studied the role of individual and organizational variable and the intensity of ethical dimensions in moral decision-making in Libya. The results showed that there is a significant relationship between moral knowledge and moral judgment, as well as between moral judgment and moral intention, but moral recognition is not significant. It was also found that organizational variables, age, and educational level had a significant impact on ethical decision-making. Also, gender has a significant impact on ethical decision-making, and this effect has been higher for men than women. Watson et al. (2009) investigated the simultaneous effect of ethical and unethical individual values on ethical decision-making and how these values interact with situational factors such as reward and punishment among 177 students. The results of their study showed that both moral variables (generality and benevolence) as well as unethical variables (power and hedonism) have a direct effect on students' ethical decision-making, and also ethical and unethical values interact with situational factors so that to have a significant effect on students; ethical decision-making. Keller et al. (2007) examined the effect of factors such as gender, educational level, religious fanaticism, and work experience on individuals'



ethical decision-making process, and showed that all of these four factors cause differences in the ethical standards of individuals.

Nejati Karimabad (2015) explored the impact of individual values on managers' ethical decision-making. Individual values have a long-standing relationship with moral decision-making. The results of the study suggested that altruism as an individual value has a positive effect on ethical decision making. Self-esteem and freedom (change of values) are negatively correlated with ethical decision making. Besides, it was found that traditional values have no significant impact on moral decision-making. Siahkal Roodi et al. (2015) conducted a study to identify factors influencing managers' ethical decision-making. The results showed that the variables "religious beliefs", "individual values", "moral leadership", "moral judgment", "moral environment", "moral system", and "organizational culture" have the greatest impact while variables including "age", "years of service", "management experience", and "gender" have the least impact on managerial ethical decision making. Mahdavi and Ali Pour (2010) studied the ethical decision making approaches taken by financial managers of companies. The results showed that the financial managers of Tehran Stock Exchange companies believe in ethical, interest-based, religious, and conscientious decision-making approaches, but do not believe in interpretive, immoral, and pragmatic ethical decision-making approaches.

Research Hypotheses

This section states the main research hypothesis and sub-hypotheses:

- *Main Hypothesis*

Individual and organizational variables have a significant effect on ethical decision-making by managers in government organizations in Shiraz.

- *Sub-Hypotheses*

The research sub-hypotheses tested in this study are stated as follows:

- **H1:** Age has a significant effect on ethical decision-making by managers in government organizations in Shiraz.
- **H2:** Experience has a significant effect on ethical decision-making by managers in government organizations in Shiraz.
- **H3:** Gender has a significant effect on ethical decision-making by managers in government organizations in Shiraz.
- **H4:** Education level has a significant effect on ethical decision-making by managers in government organizations in Shiraz.
- **H5:** Organizational climate has a significant effect on ethical decision-making by managers in government organizations in Shiraz.
- **H6:** Organizational culture has a significant effect on ethical decision-making by managers in government organizations in Shiraz.
- **H7:** Compensation system has a significant effect on ethical decision-making by managers in government organizations in Shiraz.

RESEARCH METHODOLOGY

As it was stated earlier, the main objective of this study was to investigate how manager's ethical decision-making is affected by individual and organizational variables in governmental



organizations in Shiraz. This study is an applied research in terms of its objective and a causal-survey research in terms of the method of data collection. The research population included all experienced and knowledgeable staff in the field of research problem, who were working in governmental organizations in Shiraz and their number was reported to be 750 individuals. The sample size, according to the Krejcie and Morgan table, was calculated as about 256 employees who were selected through cluster random sampling. The instrument used to collect data was a questionnaire whose content validity was confirmed by several leading professors in the field of management. In order to measure the reliability of the questionnaire, Cronbach's alpha was used. The values of Cronbach's alpha for organizational climate, organizational culture, service compensation system, and managers' ethical decision making were 0.87, 0.91, 0.84, and 0.81, respectively. Given that the Cronbach's alpha coefficient for all research variables is higher than 0.80 and close to one, it can be suggested that the internal consistency of the items is high. Upon the completion of the questionnaires by the respondents, the collected data were analyzed by SPSS software. The Kolmogorov-Smirnov test was used to test the data normality. According to the results of this test, regression analysis was run to test the research hypotheses.

EMPIRICAL RESULTS

Normality of Variable Distribution

Before testing the relationships between the variables, we need to examine the normality of the research variables. One of the methods for checking the normality assumption of the research variables is the use of the Kolmogorov-Smirnov test, results of which are presented in Table 1:



Table 1: Results of Kolmogorov-Smirnov test for normality of variables

Variables	Statistics	Sig.
Organizational climate	0.108	0.08
Organizational culture	0.064	0.07
Compensation system	0.082	0.10
Managers' ethical decision-making	0.124	0.08

As it is shown in Table 1, the resulting values for checking the normality of all four variables are higher than 0.05. Therefore, it can be said that the normality assumption of organizational climate, organizational culture, compensation system, and managers' ethical decision making has been satisfied.

Testing Research Hypotheses

Regression analysis was run in this study to find out the effects of individual variables on managers' ethical decision-making. As it can be seen in Table 2, since the significance level ($\text{sig} = 0.000$) is smaller than 0.05 ($P < 0.05$), it can be said that age, experience, gender, and education have a significant relationship with managers' ethical decision making at 99% confidence level, and since B-values for individual variables are 0.382, 0.429, 0.496, and 0.464, respectively, then for a unit increase in the independent variable (individual variables), the dependent variable (managers' ethical decision-making) increases by 0.382, 0.429, 0.496, and 0.464 units, respectively. Therefore, based on the obtained results obtained, the first to fourth research hypotheses are confirmed.

Table 2: Linear regression results to predict managers' ethical decision-making based on individual variables

Independent variable	Items	R	R ²	B	t	Sig.
Individual variables	Age	0.238	0.057	0.382	4.660	0.000
	Experience	0.274	0.075	0.429	5.421	0.000
	Gender	0.163	0.027	0.496	3.149	0.000
	Education	0.199	0.040	0.646	3.856	0.000

Similarly, regression analysis was run in this study to find out the effects of organizational variables (organizational climate, organizational culture, and compensation system) on managers' ethical decision-making. As it can be seen in Table 3, since the significance level (sig = 0.000) is smaller than 0.05 ($P < 0.05$) for all variables, it can be said that organizational variables have a significant relationship with managers' ethical decision making at 99% confidence level. Besides, since B-values for organizational variables are 0.069, 0.068, and 0.036, respectively, then for a unit increase in the independent variable (organizational variables), the dependent variable (managers' ethical decision-making) increases by 0.069, 0.068, and 0.036, units, respectively. Therefore, based on these findings, the fifth to seventh research hypotheses are confirmed.

Table 3: Linear regression results to predict managers' ethical decision-making based on organizational variables

Independent variable	Items	R	R ²	B	t	Sig.
Individual variables	Organizational climate	0.403	0.162	0.069	8.359	0.000
	Organizational culture	0.410	0.168	0.068	8.536	0.000
	Compensation system	0.112	0.013	0.036	2.144	0.000

CONCLUSION AND SUGGESTIONS

The results of the present study showed that individual variables have a positive and significant effect on managers' ethical decision making. This implies that executive organizations should pay particular attention to individual variables if they are to improve the ethical decisions made in the organization and thereby increase employee productivity and increase organizational performance.

If a proper organizational climate is dominant in the organization that allows employees to take the necessary steps to perform the assigned tasks and can establish appropriate relationships with other colleagues, they can perform the assigned tasks more efficiently and also can assist managers in their organizational decision making, especially ethical decision-making. In an organization, managers are decision-makers and the quality of their decisions determines the organization's success in achieving its goals. Managers' decision making style is different from one organization to another and can be influenced by a variety of factors. One of the most important factors influencing the managers' decision-making is organizational culture. Culture, through its influence on different components, can determine the fate of organizations, which is why it is necessary for organizations to make their managers and employees familiar with the dominant culture and appropriate decision making styles. If the compensation system works well in the organization and employee satisfaction is achieved, we will see an increase in the number of employees, as well as their morality, which will lead to better ethical decision-making by managers.

Strengthening organizational culture, establishing a fair compensation system, respecting the ethical judgment of managers and employees, setting up clear and confidential communication lines to reveal deviations of the ethical system, creating a unit in the organization for the analysis and interpretation of ethical principles and the transfer of findings to managers and staff, monitoring and arbitration among them, and selecting the right people for this purpose are some suggestions that can be taken into account by organizations.

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