CHAPTER I

INTRODUCTION

Introduction

This research built upon the work of Bageac *et al*, (2010). The purpose of this study is to investigate management students' attitudes towards business ethics as a comparison research between Indonesia and Lesotho. The primary aim was to assess management students' attitudes towards business ethics in preferences to three business philosophies: Machiavellianism, Social Darwinism, and Moral Objectivism.

The research was conducted in the context of undergraduate management programs in Indonesia and Lesotho Universities. This study was never conducted in the mentioned countries before. This chapter starts with the reasons for conducting this research followed by the identification of the heart of the problem of the research and the research questions. Furthermore, aim of the research is elaborated in the subsequent section. This was followed by the authenticity of the research and the benefits that will be provided by the results of this study. Next the organization of the study was discussed.

1. **Background of the study**

Successions of researchers have been investigating a range of aspects of ethics in business from 1970s (Small, 1992: 746). Moreover the study of business ethics on its own has just taken its stand, thus business ethics became into view for only a few decades as a standalone field in management sciences (DeGeorge, 1987), to become

one of the most significant research directions for international business (Cardy and Servarajan, 2006; Phau and Kea, 2007).

Businesses, "the engine for economic development", have a great power and influence on the evolution and well being of society, (Crane, 2010). Therefore, this supposes that when business does well its not only its members (stockholders) that benefit but also the society at large and in the same way when it fails both stockholders and society suffer. Thus both researchers and practitioners have acknowledged "the importance of responsibility for good business" (Freeman, 1984) (Caroll, 2000) and the subject of business ethics and ethical leadership has become intensively researched and discussed in the last three decades.

There is a quite widespread public concern for ethical matters in business. Most people in general suppose that businesses consider ethical considerations at worst irrelevant and at best only marginally appropriate to their operation. According to a gallup poll, 63% of Americans are dissatisfied with the country's ethical standards (John, 1986). This public concern is quite legitimate in view of the major scandals and fraudulent practices in businesses all over the world (Alam, 1995: 309).

This issue was further supported by Luthar, *et al*, (1997), they argued that, the cases of many corporate scandals and those of companies such as Xerox and WorldCom, which had to deal with managerial failure, attracted public interest on the responsibilities of companies towards society and due to that, ethical considerations in the corporate behavior have increased in importance as the society has become more sensitive to ethicality issues. In addition to that, companies worldwide are nowadays aware of the harm that an unethical conduct, a major component of

managerial failure, can cause. Malpractices and unethical behavior can cause damage to individuals, communities and the environment. (Crane, 2010). Price of running a business in corrupt scenario is much higher than in honest and caring environment (Phau & Kea, 2006). Ethics has become key part of firms' daily life activities, and also source of competitive advantage and corporate identity

Every day newspapers announce the names of companies that choose profits over ethics or that, at least for a time, profited through unethical behavior- Enron, Worldcom, Global Crossing, Rite-Aid, Oracle, ParMor, Adelphia, Arthur Andersen, Louisiana-Pacific, and Qwest- are but a few of these (Velasquez, 2012: 6). Taking the case of Enron, what was started out as a declaration for bankruptcy ended up in a massive scandal affecting a large group of stakeholders: employees, investors, banks, credit agencies and many other organizations.

In Carroll's opinion the Enron scandal was "the tsunami that redefined business's relationships with the world" (Caroll & Buchholtz, 2009). As a result, new questions and expectations about business issues came into discussion and the "calling for ethics in business came as a solution to prevent and control individuals' behave in an organization and the way to make certain demands on companies to go beyond only economics" but count responsible for their actions.

That is the business practitioners are still doing unethical acts within their businesses yet business ethics prohibits it. It is fundamental for business students over the world to study business ethics hence they are to be prospective managers and administrators of the future business. And not only, representing the new generation of managers, but business students are an important group with strong potential

impact on both the everyday practice of and the principles governing business (Criinbaum, 1997).

Preble and Reichel were interested in this area because business students were considered to be the prospective managers and administrators of the future (Small, 1992: 745). This idea was supported by D'Aquila (2004: 156) that these students however, are the source of new entrants into the business world and they are foundation for the ethical structures being built by organizations. On the other hand, within the realm of multinational business, an increasing number of managers and others are witnessing a clash between the norms and attitudes of different cultures towards basic questions of right and wrong (Crunbaum, 1997). One of the major concerns of business ethics is to assist management students understand sales ethics across countries. Countries vary in numerous ways that affect societal norms towards ethical decision making and accompanying choices of behavior. These include laws, ethics education, and customs, among others. In addition, understanding the role of culture on ethical behavior is a major issue (Li, 2012; 219).

A better understanding of this progression can be attained by integrating business ethics into a broader framework of an accelerating economic globalization. The assimilation of ethics is creating visible challenges, for which the traditional economic approach appears limited in the solutions it gives. Sims and Gegez (2004) persist on the need for such integration; maintaining that the meeting of diverse business practices, coming from different cultures, could potentially lead to problems and conflicts. The movement of global incorporation can be perceived as the catalyst for the need of a deeper comprehension of the different business practices of actors

belonging to different cultural contexts. Hence there is a need for management students to comprehend how different countries operate. Addition to that, business ethics in the context of globalization is represented by expectations toward ''responsible'' or ''ethical'' behavior, regardless of the existence of different cultural and societal standards.

Therefore, Hofstede and Hofstede (2005) stated that some business practices, for instance the preferential employment of relatives, may be a normal practice in some cultures nevertheless unacceptable in other cultures. Cross-cultural studies are critical to understand the differences in the perceptions of business ethics in different countries but it is not an easy task to do. It is suggested that for almost two decades many studies have urbanized a deeper understanding of the way people regard this intricate phenomenon as business ethics using the Attitudes Toward Business Ethics Questionnaire (ATBEQ) (Neumann and Reichel, 1987). Preble and Reichel (1988) studied differences in attitudes toward business ethics between American and Israeli students. Later, Small (1992) added a sample of students from Western Australia and Moore and Radloff (1996) extended the study by including a South African sample.

Furthermore, Sims and Gegez (2004) added a Turkish sample and conducted a comparison across these five countries. And later, Bageac, *et al*, (2010) used ATBEQ to assess the attitudes towards business ethics of management students in two European countries namely France and Romania and data was collected to measure preferences for three business philosophies: Machiavellianism, Social Darwinism, and Moral Objectivism. The results show that Romanian students present more favorable attitudes toward Machiavellianism than French students; whereas, French

students valued Social Darwinism and Moral Objectivism more highly (Bageac, *et al*, 2010: 391). Therefore, like the previous studies Bageac, *et al* (2010) got the significant differences between those different countries. The aim of this study is to investigate management students' attitudes towards business ethics as a comparison research between Indonesia and Lesotho.

1.2 Statement of the problem

The increasing globalization of international economies making business practices more uniform the social organization of production, marketing, customer relations etc, are all becoming increasingly similar throughout the developed world. It has become widely accepted that businesses must function and operate within the social, ethical and legal values accepted by society (Bordieanu, 2012). In globalization age, business ethics is one of the strongest assets to create, maintain and enhance goodwill and customer loyalty.

Vogel (1992) argues that whilst regulatory rules and standards are rapidly becoming increasingly similar across the industrialized nations, and mainly within the European Community and the United States, on issues such as environmental regulation, insider trading, labor practices etc; individual might suppose the same trends to be taking place with respect to the principles and practices in business ethics. Nevertheless Vogel argues that this trend is only occurring very slowly and he claims that business ethics are not yet as globalized, and that there is still a wide variance in the norms of ethical business behavior across the different industrialized nations (Moore and Radloff, 1996).

And it goes without saying that it is worse in developing countries such as Indonesia and Lesotho in which it might lead to different preferences of business philosophies: Machiavellianism, Social Darwinism and Moral Objectivism. Thus, Hofstede and Hofstede (2005) note that some business practices, such as the preferential employment of relatives, may be the norm in some cultures but unacceptable in other cultures. It is in this context of international differences in ethical attitudes towards business that the current study attempts to assess significance differences.

1.3   Research Question

Since the previous studies have shown significant differences between different countries on the bases of ethical attitudes towards business and management student's preferences on three business philosophies, the current study could like to research on this question:

1. Are there significant differences between Indonesian and Lesotho management students' attitudes towards business ethics in preferences to three business philosophies: Machiavellianism, Social Darwinism and Moral Objectivism?

2. Are there significant differences between Indonesia and Lesotho management students' attitudes towards business ethics with different levels of religiosity in preferences to three business philosophies: Machiavellianism, Social Darwinism and Moral Objectivism?

3. Are there significant differences between Indonesia and Lesotho management students' attitudes towards business ethics with different gender in preferences to

three business philosophies: Machiavellianism, Social Darwinism and Moral Objectivism?

1.4 The authenticity of the research

This research is based on the work by Preble and Reichel (1988) which studied the ethical attitudes of American and Israeli business students. The questionnaire (ATBEQ) used was originally developed by Neumann and Reichel (1987) and was cited in Preble and Reichel (1988). Later, Small (1992) extended the study by adding a sample of students from Western Australia and Moore and Radloff (1996) added the study by including a South African sample. Sims and Gegez (2004) added a Turkish sample and conducted a comparison across these five countries. Recently, Bageac, *et al*, (2010) conducted the same study in European countries; France and Romania. Despite the contribution of African and Asian countries to the debate about business ethics the ATBEQ has never been used to assess the attitudes toward business ethics in Indonesia and Lesotho. Thus the present study attempts to reduce this gap by collecting data from these two different countries: Indonesia and Lesotho. However it is a replication of the previous study of Bageac *et at* (2010) on the attitudes towards business ethics by management students in two countries that have not yet been studied.

1.5 Benefits of the Study

Previous studies hypothesized differences at country level, while Bageac develop hypotheses at the country, societal- and individual levels to explain the

differences between French and Romanian students in their attitudes toward three business ethics philosophies: Social Darwinism, Machiavellianism, and Moral Objectivism, I will develop hypothesis at the country, societal- and individual level also to explain the differences between Indonesia and Lesotho using the same three philosophies. Hence I will be contributing to the development of the field of business ethics and help with a critical understanding of the differences in the perceptions of business ethics in different countries.

The results of this comparison study will bring an input to academia when it comes to the global plenary, and see how these societies are developing prospective employers when it comes to business ethics and being social responsible. In addition, since business students are considered to be the prospective managers and administrators of the future and the results of this study could be one indicator of the way future managers might be expected to behave.

This idea was supported by D'Aquila (2004: 156) that these students however, are the source of new entrants into the business world and they are foundation for the ethical structures being built by organizations. Therefore the findings of this research would assist both educators and employers in the development of necessary programs to maximize the ethical potential of their constituents.

1.6 Objective of the Study

As the previous studies have shown significant differences across countries from different continents level of religiosity and gender, the objectives of the study are:

1. To assess if there are significant differences between Indonesia and Lesotho management students' attitudes towards business ethics in preferences to three business philosophies: Machiavellianism, Social Darwinism and Moral Objectivism.

2. To assess if there are significant differences between Indonesia and Lesotho management students' attitudes towards business ethics with different levels of religiosity in preferences to three business philosophies: Machiavellianism, Social Darwinism and Moral Objectivism.

3. To assess if there are significant differences between Indonesia and Lesotho management students' attitudes towards business ethics with different gender in preferences to three business ethics: Machiavellianism, Social Darwinism and Moral Objectivism.

1.7 Organization of the study

Chapter 1 has presented the background of the study, statement of the problem, research questions, the authenticity of the research, significance of the study, objectives of the study, and organization of the study. Chapter 2 presents a review of literature, theoretical framework and relevant research associated with the problem addressed in this study. Chapter 3 presents the methodology and procedures used for data collection, method of data analysis, validity and reliability testing and ethical consideration. Chapter 4 contains (will contain) an analysis of the data, presentation of the results and the findings. Chapter 5 offers (will offer) discussion of the

researcher's findings, implications for practice, limitations of the research and recommendations for future research.