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IMPACT OF COMMITMENT TO BUSINESS ETHICS TO NONFINANCIAL BUSINESS PERFORMANCE

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ABSTRACT

The article investigates the relationship between commitment to business ethics and nonfinancial business performance. Data of commitment to business ethics and nonfinancial business performance were collected from 100 participants through a questionnaire survey. The survey was conducted in 2015 in Croatian large and medium sized companies. The questionnaire for assessing commitment to business ethics contained nine different dimensions while the nonfinancial business performance contained three dimensions: client satisfaction, human resource management plus innovativeness and efficiency of business processes. Multiple regression methods were applied in the analysis. The empirical results of three multiple linear regression models show that certain dimension of commitment to business ethics had a positive influence on the nonfinancial performance of the companies. Motivation and rewarding policy for ethical behavior and responding to unethical behavior, as a dimension of commitment to business ethics, has distinctive effects on all three nonfinancial performance dimensions. It was also found that selecting suppliers based on the standards of ethics and compliance has a positive and strong influence on client satisfaction while using ethical criteria in the performance and efficiency evaluation of employees has a positive and significant influence on innovativeness and efficiency of business processes. This research leads to the conclusion that some dimensions of commitment to business ethics can be important predictors of nonfinancial business performance. Therefore, results of the research could be considered as valid motivation for further improvement of commitment to ethics in the business environment.

KEY WORDS

business ethics, business performance, commitment to business ethics, multiple regression, nonfinancial dimension

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INTRODUCTION

In the last decades, researchers spent a considerable amount of study on the topic on a commitment to business ethics in the nonfinancial perspectives of business performance. While some authors, in terms of nonfinancial dimensions, argue the ethics is a good business investment because it creates positive external impacts such as the stakeholder's commitment and trust which in turn guarantees the long-term positive results [1], enhanced reputation and positive corporate image [2], increase customer loyalty [3] and build competitive advantage [4], others are skeptical [5]. Berrone et al. [6] shows that companies with substantial ethical commitment reach a higher satisfaction of stakeholders which ultimately has a stronger influence on financial result stated in market value added. Companies committed to business ethics provide a clear view of their values and beliefs, avoiding uncertainty of the future performance and finally risks in the long-term [7] and, therefore, they attract investors who recognize ethical and sustainable priorities in business [8]. Furthermore, in companies committed to business ethics employees' perception is positively related to job satisfaction [9] trust in the organizations [10], effective communication between managers and employees [10] and ethical decision-making [11]. This indicates that a strong commitment to business ethics creates positive and healthier organizational culture. In the research, Trevino et al. [12] connected affirmative ethical cultures to decreased misconduct, reduced pressure to compromise ethical standards, increased reporting to top-level management and their response to misconducts, higher satisfaction within the company and greater willingness to handle misconduct in general [13].

After numerous scandals and unethical activities, it has been noticed that a number of companies have developed ethics programs, but they were frequently just "window dressing" for the public. Therefore, some governments wanted to introduce changes in this segment and legally regulate it. After the adoption of the US Foreign Corrupt Practices Act (FCPA) 1977 when ethics and compliance programs were first introduced into business practices, the U.S. Sentencing Commission [14] included revisions to their guidelines for developing an organizational culture that promotes ethical conduct and complies with the laws in companies. However, up to date, no country in the world is excluded from unethical activities and misconducts including the US, which legislation of ethics and compliance is on the highest level. According to Bajaj et al. [15] the total fines for FCPA enforcement imposed on companies from 2002 through 2009 ranged from under $1 million to nearly $156 million annually. Authors also stated that in 2013, the settlement resulted in fines close to $400 million. Research noted that between largest ten FCPA settlements, just two companies were from the US, other eight companies were from other countries such as Germany, India, France, Italy, Hungary and UK [15] which confirms that the unethical actions are widespread. On the other hand, increased interest in business ethics became obvious in all economies around the world. Recent researches confirm that commitment to business ethics have strong impression in business [16-18]. Many companies recognize their importance and according to IT Policy Compliance Group [19], commitment to ethical business have strong impression on: (i) 17 % higher revenues than all other firms; (ii) 14 % higher profits than all others; (iii) 18 % higher customer satisfaction rates; (iv) 17 % higher customer retention levels; (v) 96 % lower financial losses from the loss of theft of customer data; (vi) 50 times less likely to lose or have stolen customer data; and (vii) 50 % less spent on regulatory compliance annually. According to the National Business Ethics Survey [20], increasingly sophisticated ethics programs are developing new standards in employee's behavior. Companies are working hard to implement ethical standards and to build strong cultures. The survey confirmed if companies evaluate ethical performance and build strong cultures, misconduct is substantially lower [20]. According to their survey, 20 % employees reported seeing misconduct in companies where cultures are "strong" compared to 88 % who witnessed wrongdoing in companies with the weakest cultures.

Nowadays, ethical business has emerged as an essential component in the long-term business success, and it becomes an important issue in society, which give us a justified reason to explore its function in the corporate governance and performance of companies in modern market conditions. With ethical commitment, companies can avoid negative effects on their business in the long term. While commitment to business ethics is dominant on regulated western markets, too little attention has been paid to this subject in transition countries, including Croatia. Standards that encourage commitment to business ethics in regulated markets (e.g., US FCPA, USSC, UK Anti-bribery Act) present significant challenge for Croatian companies when they operate abroad due to an absence of additional local legislation that encourages companies to implement ethical standards in their daily activities.

Based on the analysis of previous studies and limited studies that analyze the impact of business ethics on overall performance and specifically nonfinancial perspectives of business performance, authors concluded that there was a need for additional research in that field. Authors would like to close this gap and contribute to the body of literature by measuring an impact of business ethics on nonfinancial performance in Croatian companies. Article consists on the introduction, followed by the literature review. In the third part of the article methodology is presented, while results are presented in the fourth part of the article, followed by the conclusion.

LITERATURE OVERVIEW

Even though the concept of business ethics has been presented throughout the whole history of doing business, in the late 1970s it has begun to institutionalize in business and academic world. It has emerged as an interdisciplinary field which implies that more than forty years scientific and researchers studying the problems and phenomena of business ethics, and their influences and functions in the process of corporate governance and business performance.

THE NOTION OF BUSINESS ETHICS

Business ethics represents good or bad and right or wrong behavior towards all stakeholders in business context, and it deals with moral expectations and practices occurring in economic system. Social responsibility as the issue of external demonstration of ethical performance depends on internal organizational ethics based on in-depth ethical standards and organizational culture that supports acting well. Therefore, those principles through ethical standards need to become a part of every company. Although a large number of authors and researchers denies beliefs of those who argue that ethics and business are excluded [21], Trevino and Nelson [22] define business ethics as a set of moral rules and values that influence and direct the behavior of individuals or groups in relation to something that is right or wrong in making decisions and in the management. Drucker, considered as the founder of modern American management, [23] also recognized the interrelation between ethics and business. He argued that business ethics is not separate from any other kind of ethics. He explained that: "All authorities of the Western tradition – from the Old Testament prophets all the way to Spinoza in the seventeenth century, to Kant in the eighteenth century, Kierkegaard in the nineteenth century and, in this century, the F.H. Bradley (1927) (Ethical Studies) or the American Edmond Cahn (1955) (The Moral Decision) – are, however, in complete agreement on one point: There is only one ethics, one set of rules of morality, one code, that of individual behavior in which the same rules apply to everyone alike" [24]. This kind of universal ethics makes an imperative of social responsibility that offers primacy in long-term sustainable business. Therefore, many authors and entrepreneurs point out that business ethics improves sustainable business performance and provides operational excellence to every business person [25].

MEASURING INTENSITY OF COMPANY'S COMMITMENT TO BUSINESS ETHICS

Though there is no universal measure of business ethics, recently, authors have set different criteria to measure the intensity of company's commitment to business ethics. Trevino et al. [26] in their research used fourteen dimensions in terms of leadership role modeling, ethics code, sanctions for ethical and unethical conduct and norms of ethical behavior in the company. Vig [27] developed a model that assist in establishing an ethical organisational culture with determined criteria of business ethics in terms of values, implementation and governance of such a company. Furthermore, Lloyd and Mey [28] include in their model code of ethics, top management commitment, reward system, ethics training, helpline, whistle-blower protection, ethical assessment and audit and ethics committee.

Berrone et al. [6] determine two dimensions of Corporate Ethical Identity (CEI). The first dimension named Corporate Revealed Ethics (CRE) is more focused on transparent communication of ethics, commonly, through the company's statement. The second dimension refers to Corporate Applied Ethics (CAE) which incorporates ethical activities like actions, events and process based on ethics, employee's profit sharing and training programs [6]. Additionally, Verbos et al. [29] define the living code, which includes a synergy of authentic leadership, as an ethical organizational culture and five key organizational processes.

Trevino and Nelson [22] identify that companies create an ethical culture through a multiple interrelation of formal (rules, policies and codes, executive leader communications, orientation and training programs, selection systems, performance management systems, organizational structures, and formal decision-making process) and informal organizational systems (norms of daily behavior, stories heroes, rituals, myths and role models, and language). It can be concluded that companies differ precisely in line with the values prevailing in their way of doing business inside a company and towards all stakeholders in the system. Based on previous research, in our study, authors determinate nine dimensions for measuring commitment to business ethics in terms of motivation and rewarding policy for ethical behavior and responding to unethical behavior; communicating ethical values within the company; promoting an ethical culture, having an unambiguous, visible commitment and involvement in solving ethical problems by senior management; using ethical criteria in performance and efficiency evaluation of employees; using ethical criteria in risk assessment; implementing and integrating ethical criteria in organizational culture; using ethical criteria in corporate reporting to external stakeholders; selecting suppliers based on the standards of ethics and compliance; and conducting due diligence in terms of ethics and compliance in mergers and acquisitions.

A crucial dimension of ethical commitment in a company is an implemented policy of motivation and rewarding for ethical behavior and responding to unethical behavior [22]. For ethical values to be effectively communicated throughout a company, companies should ensure that employees understand and follow the values, rules and codes of conduct. Companies encourage employees to speak up and use company values as a framework for decision making [30] which is also a part of integrated ethical communication. Internal communication aims at enlivening set codes and procedures and encouraging management-level and other employees to exhibit their ethical actions in their relations and communication.

Top-level management, including board and senior managers, is responsible for ensuring that a company has effective ethics program, and they need to set the highest standards of ethical behavior. By following the principle “tone of the top”, they allow ethical behavior standards to cascade to the middle management who then, through their actions and behaviors, set an example for other managers and employees, thus affecting their behavior. On paper, a company can have all other dimensions of the effective, ethical program, but if it lacks top-level commitment, it is hardly possible to develop a commitment to business ethics.

Furthermore, to assess the efficiency of employee’s performance and prevent possible non ethical activities, companies need to ingrain ethical criteria in performance and efficiency evaluation of employees. Steinberg [31] argues that ethics is the most effective when supervisory and management personnel, closest to the action, are aware of the employee activities and monitor them in the usual course of managing a business. Using ethical criteria in performance and evaluation of employee influence on how they do their job and how they interact with their colleagues and other stakeholders is the significant indicator of ethical importance.

Due to increased business performance in highly regulated markets and stakeholders’ interest in the way of doing business, companies are compelled to use ethical criteria in risk assessment to maintain the competitive position on the market. Therefore, there is a need to assess risks in that segment. According to Williford and Small [32] ethical criteria as a part of ethics and compliance risk assessments usually include possible sanctions and penalties on local and international markets, employee complaints, audit results, corruption and practices of countries where domicile companies work and court judgments.

Company with ethical codes and procedures requires a commitment to employee’s ethical behavior. Therefore, codes and policies that specify acceptable and unacceptable types of behavior in companies should be a guiding principle of ethical organizational behavior. Taking into consideration the necessity of ethical procedures to have a strong culture, it can be concluded that a strong, ethical organizational culture can be established only with clearly defined codes, policies and procedures of ethical behavior and with clearly and transparently implemented communication on all organizational levels.

Ethical criteria for corporate reporting also present an opportunity to develop a positive reputation of the company. Companies are dependent on how their stakeholders perceive them, therefore, managers need to communicate not just performance results, but also their achievement to key stakeholders to strengthen the reputation and goodwill and finally ensure better access to capital and foreign investments. Ethical companies increasingly require their partners and suppliers to develop their ethical standards or to comply with company’s standards what makes an ethical base for selecting suppliers.

Finally, due diligence, often part of a wider organizational due diligence framework, is a form of ethics and compliance risk assessment with the purpose to prevent and mitigate risk [33]. Companies are especially empowered to use due diligence when starting new business relationships and entering new markets to take measures to prevent possible non ethical and noncompliance activities on time.

IMPACT OF BUSINESS ETHICS TO BUSINESS PERFORMANCE

Making decisions based only on financial indicators as a reflection of past events are no longer sufficient for achieving sustainable competitive advantage. Therefore, companies focus on the parameters that create long-term value including nonfinancial indicators as indicators of business performance [34]. Nowadays the majority of companies present nonfinancial indicators, essential for their business processes, such as customer perspective, product quality, the duration of the operating cycle, internal processes, innovation and employee satisfaction, and learning and growth perspective in their annual report.

There are many models that incorporate financial and nonfinancial perspective in assessing the performance of the company (e.g., Balanced Scorecard, EFQM Excellence Model, Value Based Management, Business Excellence Model, Total Quality Management, Activity Based Costing, Key Performance Indicator). Some researchers have investigated the relationship between nonfinancial performance as a result of business ethics and financial performance of companies. Although it was the considerable amount of positive relationship [6, 35], studies also have shown the negative relationship [36] and non-significant relationship [37, 38]. Verschoor [39] made the first study which investigated the relationship between company's financial and nonfinancial performances and commitment to business ethics.

In the line of Verschoor's paper, authors would like to contribute to this kind of literature by investigating an impact of business ethics on nonfinancial performance in Croatian companies measured regarding client satisfaction, human resources management plus innovativeness and efficiency of business processes. Client and customer satisfaction as a nonfinancial business performance present an important issue in evaluating company's performance which leads to trust and loyalty in long-term. Although the characteristics of human resource management are regarded to play significant roles in encouraging ethical organization, few empirical studies have been conducted [40]. Furthermore, there are very few studies examining the role of innovation in the contest of business ethics [41]. Therefore, this study will suggest that a company's innovation will be influenced by a commitment to business ethics.

HYPOTHESIS DEVELOPMENT

Companies that do not motivate and reward their employees with incentives based just on the job results, such as increased sales or profit and instead use ethical and moral attributes to verify how employees perform, prove the importance of the way their employees do things, not just what they achieve [22]. Companies revealed what desired employees behavior is and which unethical behavior they discourage. Emphasizing the importance of motivation, rewarding policy for ethical behavior and responding to unethical behavior is crucial to the alignment an ethical culture in a company [22]. Hence, we propose:

H1: *There is a positive relationship between motivation and rewarding policy for ethical behavior and responding to unethical behavior as a dimension of commitment to business ethics and nonfinancial business performance.*

Reputation is a key factor for profitability and sustainability from stakeholder perspective [42]. Companies with a good reputation may also expect client loyalty resulting in a more stable or increase in turnover over time. Companies that take into consideration their ethical reputation want to know with whom they do business and want to be sure which level of ethical standards in doing business their partners and suppliers use. In order to do business with them, companies increasingly require their partners and suppliers to develop their own ethical standards or to comply with company's own standards. Harmonized standards of ethics and compliance enable business partners to demonstrate mutual respect and trust which is essential for developing a long-term sustainable cooperation. Hence, we propose:

H2: *There is a positive relationship between selecting suppliers based on the standards of ethics and compliance as a dimension of commitment to business ethics and client satisfaction as s nonfinancial business performance.*

According to the National Business Ethics Survey [20], 67 % companies included ethical conduct as a performance measure in employee evaluations and 74 % companies communicated internally about disciplinary actions when wrongdoing occurs. These companies discipline employees' misconduct and letting it be known that bad behavior is being punished. Data showed that discipline and ethics as a part of employee evaluations are two of the most powerful tools in effective ethics programs [20] which have the purpose of encouraging trust and loyalty among employees [43]. Commitment to business ethics has a positive impact on job satisfaction and organizational commitment [10, 26, 44], increased attraction of high-potential talent [45], and finally on innovations [41]. Therefore, in line with the previous research, we propose:

H3: *There is a positive relationship between using ethical criteria in performance and efficiency evaluation of employees as a dimension of commitment to business ethics and innovativeness and efficiency of business processes as a nonfinancial business performance.*

METHODOLOGY

SAMPLE

Data were collected from Croatian companies included in the Croatian Financial Agency (FINA) database, the largest database of Croatian firms. The size was the only criteria for inclusion of companies in the sample, where medium-sized companies have from 50 to 249 employees, and large have 250 or more employees. As per the FINA database, the total number of firms amounted to 101 191, out of which 1268 medium and 350 large firms. The planned sample size was 600 companies. The total sample was equally allocated in large and medium companies, so the sample randomly included 300 medium and 300 large companies. Due to the complexity of the criteria that determine commitment to business ethics, which do not appear widely in such a form in smaller companies, from the research was exempted small companies up to 49 employees. Data were collected in a way that the companies selected in the sample in the first phase were contacted by telephone. In the next phase, the contact was reached via e-mail address, where also a questionnaire in electronic format was sent. Within the three months, a total of 100 completed questionnaires were collected (included 52 medium and 48 large companies). It should be noted that due to the specific topic, and the absence of a legal obligation to implement an ethical program in Croatian companies, the return of the questionnaire of 16,67 % for this survey is satisfactory. From the total of 100 participated companies, 88 were private companies and 12 state-owned companies.

Characteristics of the participants were collected as part of the survey. Data on gender, grade, and field of education were obtained through surveys. Among the respondents, 64 % were female, and 36 % were male in large companies; 67 % were female, and 33 % were male in medium-sized companies; 66 % had, at least, university degree in large companies and 44 % in medium-sized companies; 18 % had education in management of large companies and 35 % of medium-sized companies.

MEASURES

Our research instrument consisted of three sets of questions: (i) commitment to business ethics, (ii) nonfinancial dimensions of business performance, (iii) the demographics of subjects and companies. Questions were asked in the following forms: closed questions with a selection of one or more predefined answers, questions where respondents expressed agreement with a particular statement using 5-point Likert scale and open-ended questions. Respondents were guaranteed anonymity. Items for assessing commitment to business ethics were developed after examining the issues covered by various researches [6, 26-29]. In our study we determined the following dimensions for measuring commitment to business ethics: (i) motivation and rewarding policy for ethical behavior and responding to unethical behavior; (ii) communicating ethical values within the company; (iii) promoting an ethical culture, having an unambiguous, visible commitment and involvement in solving ethical problems by senior management; (iv) using ethical criteria in performance and efficiency evaluation of employees; (v) using ethical criteria in risk assessment; (vi) implementing and integrating ethical criteria in organizational culture; (vii) using ethical criteria in corporate reporting to external stakeholders; (viii) selecting suppliers based on the standards of ethics and compliance; and (ix) conducting due diligence in terms of ethics and compliance in mergers and acquisitions.

After investigating nonfinancial indicators in various businesses performance models [46-48], the data of nonfinancial business performance were determined with the following dimensions: (i) client satisfaction; (ii) human resources management; and (iii) innovativeness and efficiency of business processes. Each dimension was calculated as the average value of three variables. Therefore, client satisfaction consists: CS_1 (Customer satisfaction), CS_2 (Market share) and CS_3 (Quality of products and services). Human resources management was calculated as the average value of HR_1 (Employee productivity), HR_2 (Employee loyalty) and HR_3 (Employee turnover). Innovativeness and efficiency of business processes was calculated as the average value of three variables: IE_1 (The efficiency of internal processes), IE_2 (Innovation of products and services) and IE_3 (Internal processes innovation). The aim of the research is to study the impact of business ethics commitment, as the independent variable, on the nonfinancial performance of the Croatian companies as the dependent variable, shown in more detail in Table 1.

FINDINGS

Tables 2, 3 and 4 represent the regression models with three dependent variables: Client satisfaction, Human resources management and Innovativeness plus efficiency of business processes and independent variables BE_1 to BE_9, which indicate ethics commitment. A positive correlation between Motivation and rewarding policy for ethical behavior and responding to unethical behavior as an indicator of business ethics commitment has a positive statistically significant impact on the Client satisfaction, Human resources management, and Innovativeness plus efficiency of business processes which implied that ethical context has a positive impact on all nonfinancial business performance dimensions. Therefore, the first hypothesis is confirmed, and there is a positive relationship between motivation and rewarding policy for ethical behavior and responding to unethical behavior as a commitment to business ethics and nonfinancial business performance.

Table 2 represents the regression model with the dependent variable Client satisfaction, and independent variables BE_1 to BE_9, which indicate ethics commitment. A positive correlation was found between commitment to business ethics and Client satisfaction. The results revealed that two variables of Motivation and rewarding policy for ethical behavior and responding to unethical behavior (10 %) and Selecting suppliers based on the standards of ethics and compliance (5 %) has a positive statistically significant impact on the Client satisfaction. The model explains 26,2638% of the variability of the dependent variable Client satisfaction. Heteroscedasticity is not present (White's test LM = 52,2621; Breusch-Pagan LM = 1,86902), and that residuals are normally distributed (p-value = 0,157167). Therefore, the second hypothesis is confirmed, and there is a positive relationship between selecting suppliers based on the standards of ethics and compliance as a dimension of commitment to business ethics and client satisfaction as a dimension of nonfinancial business performance.

Table 3 shows the regression model with the dependent variable Human resources management, and independent variables BE_1 to BE_9, which indicate ethics commitment. The results revealed that the variable of motivation and rewarding policy for ethical behavior and responding to unethical behavior (1 %) has a positive statistically significant impact on the Human resources management. The model explains 31,6860 % of the variability of the dependent

Table 1. Research instrument description.

Independent variables			
		Code	**Dimensions**
Commitment to business ethics		BE_1	Motivation and rewarding policy for ethical behavior and responding to unethical behavior
		BE_2	Communicating ethical values within the company
		BE_3	Promoting an ethical culture, having an unambiguous, visible commitment and involvement in solving ethical problems by senior management
		BE_4	Using ethical criteria in performance and efficiency evaluation of employees
		BE_5	Using ethical criteria in risk assessment
		BE_6	Implementing and integrating ethical criteria in organizational culture
		BE_7	Using ethical criteria in corporate reporting to external stakeholders
		BE_8	Selecting suppliers based on the standards of ethics and compliance
		BE_9	Conducting due diligence in terms of ethics and compliance in mergers and acquisitions
Dependent variables			
		Code	**Dimensions**
Nonfinancial business performance	**Client satisfaction**	CS_1	Customer satisfaction
		CS_2	Market share
		CS_3	Quality of products and services
	Human resources management	HR_1	Employee productivity
		HR_2	Employee loyalty
		HR_3	Employee turnover
	Innovativeness and efficiency of business processes	IE_1	The efficiency of internal processes
		IE_2	Innovation of products and services
		IE_3	Internal processes innovation

variable Human resources management. Heteroscedasticity is not present (White's test LM = 48,4853; Breusch-Pagan LM = 12,0142), and that residuals are normally distributed (*p*-value = 0,962229). The regression model made a contribution to the first hypothesis.

Table 4 presents the regression model with the dependent variable Innovativeness and efficiency of business processes, and independent variables BE_1 to BE_9, which indicate ethics commitment. The results revealed that two variables of Motivation and rewarding policy for ethical behavior and responding to unethical behavior (5 %) and Using ethical criteria in performance and efficiency evaluation of employees (10 %) have significant impact statistically. Though a positive correlation between Motivation and rewarding policy for ethical behavior and responding to unethical behavior and all nonfinancial business performance dimensions were shown, research confirmed that using ethical criteria in performance and efficiency evaluation of employees has a positive impact on Innovativeness and efficiency of business processes as well. The model explains 37,2777 % of the variability of the dependent variable Innovativeness and efficiency of business processes. Heteroscedasticity is not present (White's test LM = 62;2024; Breusch-Pagan LM = 5,95911), and that residuals are normally distributed (*p*-value = 0,566927). It could be concluded that

Table 2. Regression model with the dependent variable Client satisfaction.

Code	Coefficient	Std. Error	t-ratio	*p*-value
Const.	2,25794	0,256823	8,7918	<0,00001***
BE_1	0,165324	0,0978315	1,6899	0,09451*
BE_2	–0,0276695	0,127234	–0,2175	0,82833
BE_3	0,0141224	0,109232	0,1293	0,89742
BE_4	0,015444	0,141952	0,1088	0,91361
BE_5	–0,196606	0,145599	–1,3503	0,18030
BE_6	0,172202	0,134153	1,2836	0,20257
BE_7	0,00642077	0,104182	0,0616	0,95099
BE_8	0,342048	0,135728	2,5201	0,01349**
BE_9	–0,040798	0,122522	–0,3330	0,73992
Adjusted R- squared				0,262638

*statistically significant at 10 %
**statistically significant at 5 %
***statistically significant at 1%

Table 3. Regression model with the dependent variable Human resources management.

Code	Coefficient	Std. Error	t-ratio	p-value
const	2,00293	0,229402	8,7311	<0,00001***
BE_1	0,26669	0,0873858	3,0519	0,00299***
BE_2	0,165291	0,113649	1,4544	0,14931
BE_3	–0,0775438	0,0975687	–0,7948	0,42884
BE_4	–0,0627676	0,126796	–0,4950	0,62179
BE_5	–0,104987	0,130053	–0,8073	0,42164
BE_6	0,146953	0,119829	1,2264	0,22327
BE_7	0,0504204	0,0930583	0,5418	0,58928
BE_8	0,0447339	0,121236	0,3690	0,71301
BE_9	0,00592909	0,10944	0,0542	0,95691
Adjusted R-squared				0,316860

*statistically significant at 1 %

Table 4. Regression model with the dependent variable Innovativeness and efficiency of business processes.

	Coefficient	Std. Error	t-ratio	p-value
const	1,36935	0,287453	4,7637	<0,00001***
BE_1	0,237938	0,109499	2,1730	0,03241**
BE_2	0,0451613	0,142408	0,3171	0,75188
BE_3	-0,180842	0,122259	-1,4792	0,14259
BE_4	0,27172	0,158882	1,7102	0,09067*
BE_5	-0,0284393	0,162964	-0,1745	0,86185
BE_6	0,0837863	0,150153	0,5580	0,57823
BE_7	-0,064877	0,116607	-0,5564	0,57934
BE_8	0,195979	0,151915	1,2901	0,20034
BE_9	0,0417804	0,137135	0,3047	0,76132
Adjusted R-squared				0,372777

*statistically significant at 10 %
**statistically significant at 5 %
***statistically significant at 1 %

there is a positive relationship between using ethical criteria in performance and efficiency evaluation of employees as a dimension of commitment to business ethics and innovativeness and efficiency of business processes as a nonfinancial business performance. Therefore, the third hypothesis is confirmed.

SUMMARY OF FINDINGS

A summary of our findings is presented in Table 5. For each of the independent variables the following information is provided: (i) if the independent variable does not have any significant impact it is stated as ∅; (ii) if the independent variable does have significant impact on the dependent variable (+) or (–) signs are used to indicate the direction of the impact and 1 %, 5 % or 10 % are used in order to indicate the level of the significance.

Our research reveals that three of nine dimensions of commitment to business ethics have a significant impact on nonfinancial variables in Croatian companies. This may indicate that in an absence of legislation that additionally encourage companies to build ethical environment, Croatian companies do not implement all dimensions that represent a robust and sophisticated ethical program which is a standard on the regulated market. As a result, the companies in our sample could not recognize dimensions as important due to their absence. However, motivation and rewarding policy for ethical behavior and responding to unethical behavior, as a one of three positive dimensions of commitment to ethical business, is statistically significant in all three nonfinancial business performance variables. Our research confirms that it has a stronger positive impact on human resources management (significant at 1 %) compared to innovativeness plus efficiency of business processes (significant at 5 %) and client satisfaction (significant at 10 %).

Client satisfaction (customer satisfaction, market share, quality of products and services) is also investigated. Selecting suppliers based on the standards of ethics and compliance has a positive impact on client satisfaction which is in line with investigation conducted by other authors [3, 49]. Our research confirms that using ethical criteria in performance and efficiency evaluation of employees has a positive impact on innovativeness and efficiency of business processes as a dimension of nonfinancial business performance. This may indicate that the usage of the ethical criteria in performance and efficiency evaluation of employees could be a significant generator of the company innovativeness in Croatia. However, communicating ethical values within the company, promoting an ethical culture, having an unambiguous, visible commitment and involvement in solving ethical problems by senior management, using ethical criteria in risk assessment, implementing and integrating ethical criteria in organizational culture, using ethical criteria in corporate reporting to external stakeholders and conducting due diligence in terms of ethics and compliance in mergers and acquisitions, as dimensions of commitment to business ethics, do not have significant impact in any of the nonfinancial business performance, which contrary to the results of other authors [1, 2, 4].

In general, the findings suggest that ethically committed companies have to build an ethical culture based on measured dimensions. However, the results also suggest that not all dimensions of ethical commitment influence nonfinancial business performance. Moreover, based on our results we may also conclude that the overall level of company’s ethical commitment matters when examining the particular dimensions of ethical commitment and nonfinancial business performance.

Table 5. Overview of the regression models. Note: +1 %, +5 %, and +10 % indicates positive statistical impact at 1 %, 5 % and 10 % of signicance level; ∅ indicates no statistical impact.

Commitment to business ethics		Dependent variables		
Code	**Dimensions**	**Client satisfaction**	**Human resources management**	**Innovativeness and efficiency of business processes**
const		+1%	+1%	+1%
BE_1	Motivation and rewarding policy for ethical behavior and responding to unethical behavior	+10%	+1%	+5%
BE_2	Communicating ethical values within the company	∅	∅	∅
BE_3	Promoting an ethical culture, having an unambiguous, visible commitment and involvement in solving ethical problems by senior management	∅	∅	∅
BE_4	Using ethical criteria in performance and efficiency evaluation of employees	∅	∅	+10%
BE_5	Using ethical criteria in risk assessment	∅	∅	∅
BE_6	Implementing and integrating ethical criteria in organizational culture	∅	∅	∅
BE_7	Using ethical criteria in corporate reporting to external stakeholders	∅	∅	∅
BE_8	Selecting suppliers based on the standards of ethics and compliance	+5%	∅	∅
BE_9	Conducting due diligence in terms of ethics and compliance in mergers and acquisitions	∅	∅	∅
Adjusted R-squared		0,262638	0,316860	0,372777
Hypothesis		H1 confirmed	H2 confirmed	H3 confirmed

CONCLUSIONS

Commitment to business ethics is an important tool for a company’s long-term sustainable success that continually grow an academic and scholar interest. The prior studies on a commitment to business ethics mainly focus their attention on the financial and nonfinancial business performance instead of particular dimensions that promote commitment to business ethics and their impacts on separated nonfinancial business performances. To fill this important gap in the literature, we provide an empirical analysis concerning the relationship between commitment to business ethics and nonfinancial business performance. In doing so, we use nine dimensions to measure commitment to business ethics and three dimensions to measure nonfinancial business performance calculated as the average value of additional three variables. Additionally, to consider if the company’s ethical commitment matters, we test our results in transition country, such as Croatia. We have chosen this country, due to an absence of legislation that additionally encourage companies to build ethical environment.

SUMMARY OF RESEARCH

This study tested the correlation between commitment to business ethics and objective of nonfinancial performance such as client satisfaction, human resources management plus innovativeness and efficiency of business processes, by using measures of aggregated employees' perceptions. The empirical results of the regression model show that certain dimension of commitment to business ethics had a positive influence on the nonfinancial performance of the companies. Moreover, authors found that motivation and rewarding policy for ethical behavior and responding to unethical behavior as a dimension of commitment to business ethics has distinctive effects on all three nonfinancial performance dimensions (client satisfaction, human resources management plus innovativeness and efficiency of business processes). The study confirmed that selecting suppliers based on the standards of ethics and compliance had a positive and strong influence on client satisfaction, considering the fact that client and customers' satisfaction continue to make the most important component for long-term performance success of the company, this present a significant issue. Authors confirmed the positive and significant influence of using ethical criteria in performance and efficiency evaluation of employees on innovativeness and efficiency of business processes as a dimension of a nonfinancial performance of the companies, as well.

PRACTICAL IMPLICATIONS

The results of the study raise the issue of some practical implications, and they are useful for business practitioners alike in a several way. First of all, this study proves that a certain dimension of commitment to business ethics increase nonfinancial performance through examining such relationship at the individual level. Secondly, this study provides practical implications for companies in developing countries such as Croatia by showing that commitment to business ethics can be an important predictor of nonfinancial performance as well as a client satisfaction, human resources management and innovativeness and efficiency of business processes. Thirdly, this paper confirmed that ethics and business go simultaneously in the modern economy. Our work provides evidence that doing the right thing is lastly the company's best interest. It represents that business ethics provides a greater degree of client and employees' satisfaction which in the long term result in loyalty for both categories and higher productivity regarding employees. Conclusively, this research, as a preliminary research can be a starting point for further research in other transition countries.

LIMITATIONS AND FUTURE STUDIES

The study has a certain limitation. Firstly, the data were collected in medium-sized and large companies; therefore small companies were excluded from the research. Thus, in future research, it would be useful to enlarge a sample with small sized companies and to enlarge the sample as a whole. Secondly, the data were present an individual perception of respondents; thus, they could be subjective. Thirdly, attitudes toward a commitment to business ethics and nonfinancial business performance present the views of one participant in each company. In the future studies, interviewing more participants would give a broader view of companies. Furthermore, the geographical focus of the research is an important limitation. Authors focused on companies in Croatia, but it would also be reasonable to investigate the links between commitment to business ethics and nonfinancial business performance in other transition countries and to compare the results with other more regulated markets. This study opens numerous future research areas mentioned above. Furthermore, the terms business ethics and corporate social responsibility (CSR) are often used interchangeably, but perceptions of the roles of each remain distinct [50]. CSR has become a popular topic for academic studies; producing many researches that provide guidelines and measurement tools for an organization's social policy and explore the influence of these policies on companies and their stakeholders [51]. CSR has caught the growing attention of companies. Nowadays many of them participate in activities that address social, environmental and sustainability concerns as the issue of nonfinancial business performance. In the future research, it would be interesting to investigate the impact of ethical commitment to CSR, especially regarding the environment and community through company's philanthropic activities.

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