

CORPORATE DOMINANCE AND BUSINESS ETHICAL BEHAVIOR

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ABSTRACT

Poor ethical behavior of business can lead to myriad social problems such as overpriced, dangerous and unhealthy products, unfair wages, discrimination, and the exploitation of labor. This paper theorizes that both a needed condition and a bolstering factor for the practice of unethical business behavior is the increased opportunity to engage in unethical behavior resulting from greater business power. Using cross country regression analysis, this paper tests the proposition that business ethical behavior deteriorates with increases in corporate market dominance. The empirical findings of the paper provide support for the notion that greater market dominance has a negative effect on business ethical behavior.

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Understanding the sources of ethical behavior of business is important so that policies can be designed to bring unethical business behavior under control. Undesirable corporate behavior is a problem throughout the modern world. In the U.S. there has been a parade of business scandals. The issuance of toxic financial products in the financial sector, has lead to economic instability, and the need for expensive tax payer bailouts. China has had problems with milk, and with the production of unsafe children's toys, and, more recently, with contaminated chicken and beef supplies going to McDonald's and Kentucky Fried Chicken.

Power and abuse of power are always a problem for mankind. Greater power gives those in power increased opportunity to abuse power. In this light, one potential cause of undesirable business behavior is corporate market dominance. Greater corporate market dominance leads to greater corporate power. In the realm of business, power enables business to exert undue influence on the government, on the media, and on the various institutions of society, allowing business to set their own rules for operation, and to completely ignore any and all rules that are not to their liking.

The purpose of this paper is to test the hypothesis that greater corporate market dominance is unfavorable for business ethical behavior.

The paper is broken down into five sections. The first provides a brief review of some of the more recent articles looking at business ethics and business ethical behavior. The second section presents a formal single equation model of business ethical behavior that highlights corporate market dominance as a critical determinant of business ethical behavior. The third section identifies the sources of the variables that are used in the empirical analysis. The fourth presents the results of cross country regressions of business ethical behavior on corporate dominance. Finally, the last section rounds the paper off with some finishing remarks and comments.

I. SOME RECENT BACKGROUND LITERATURE

Analyzing survey questionnaires given to CEO and Senior management in the food and textile industries in Sydney, Australia, Quazi finds evidence that greater education, training, and religious belief of managers enhances their perceived sense of social obligation to society (Quazi 2003).

Sauers, Kenedy, and Loo consider the possible influence of culture variation on the ethical perceptions of business students (Sauers, Kennedy, and Loo 2005). Evaluating questionnaires for two different groups of commerce students that differ substantially on Hofstadter's cultural measures of individualism and power distance (New Zealand European and Malaysian Chinese), they find little statistical evidence supporting any differences between the two groups of business students on five different ethical dimensions.

Ekici and Onsel classify ninety three countries into three developmental stages, thirty one factor driven less developed countries, twenty nine middle developed efficiency-driven countries, and thirty two highly developed innovation-driven countries (Ekici and Onsel 2013). They then employ Bayesian causal map analysis on each of the three groups of countries to probe the causal relationships and interrelationships between political and legal factors and firm ethical behavior for each group. As a general rule, their results suggest that higher levels of economic development are associated with better firm ethical behavior. For both the innovation driven and efficiency drive countries, they find the most important factor directly influencing firm ethical behavior is the perception by managers of the extent of bribes and irregular payments, while for the less developed factor driven economies, it is the perception of the extent of intellectual property rights. However, the underlying key factor for all types of economies appears to be appears to be judicial independence. It seems to be important both for improving manager perception of property rights in the least developed countries, and for dampening of the perception of bribery in the intermediate and highly developed countries.

Ho conducts a questionnaire survey on undergraduate junior and senior business students in a couple of universities in Taiwan and the U.S. to investigate whether business student ethical perceptions are influenced by religion and culture (Ho 2013). With usable questionnaires from his survey consisting of 498 Taiwanese and 421 U.S. students, he finds that the average ethical perception scores on several ethical dimensions (ethical sensitivity, ethical intention, and ethical development) are higher for Taiwanese students and American students that have religious beliefs than for those that do not, and, that, on average, American business students score higher than Taiwanese students on the various dimensions of ethical perception when adjusting for religious beliefs.

Classifying financial firms in their sample into those that are socially responsible and those that are not, Chih, Chih, and Chen investigate the drivers of corporate social responsibility using probit regression analysis on a sample of 520 financial firms in 34 countries for the years 2003 through 2005 (Chih, Chih, and Chen 2010). Their findings suggest that competition, the quality management schools, better labor-employer relations, and higher levels of consumer confidence are favorable for corporate social responsibility, but that inflation diminishes corporate social responsibility.

Drawing on the literature from comparative political science and the sociology of institutional analysis, Campbell looks at socially responsible business behavior from an institutional perspective, and tries to identify conditions under which firms act in a socially responsible way(Campbell 2007). Besides economic factors such as good financial performance, prosperous macroeconomic

environment, and an optimal amount of competition, Campbell believes that institutional considerations such as high levels of institutionalized norms in society, good government regulations, effective business self-regulation, good corporate communication with stakeholders, and strong outside pressure groups, increase the likelihood for firms to engage in socially responsible behavior.

Muller and Kolk collect survey information on 121 automotive supplies companies in Mexico (28 multinational enterprises and 93 locally-owned firms) in order to study corporate social performance (Muller and Kolk 2009). Regressions on their survey data show that both trade intensity, an external factor, and, management commitment to ethics, an internal factor, improve corporate social performance. In addition, they find, that, over and above their separate individual effects, an interaction term between these two factors is also favorable for corporate social performance.

II. THE MODEL

The model consists of a single equation with the level of business ethics as the left hand side variable that is to be explained, and, the extent of market dominance, as the key right hand side variable. The model is as follows.

$$E = f(D, C) \delta E / \delta D$$

In the equation, E represents business ethics, D stands for corporate market dominance, and, C is a set of control variables. In simple English, the model essentially states that business ethics depends on the extent of corporate market dominance, and that business ethics is indirectly related to corporate market dominance.

The reason business ethical behavior is theoretically expected to be negatively related to corporate dominance is that greater market dominance provides business with more power and influence. Greater power and influence in turn provide a greater opportunity for abuse of power.

Two other explanatory variables are considered as control variables. The first is the level of economic development. All other things being equal, business ethical behavior is predicted to be positively related to the level of economic development. Higher levels of economic development are likely to be associated with easier and more opportunities to acquire income through legitimate avenues, and with greater resources devoted to monitoring, and with more effective monitoring of abusive behavior.

The second control variable is the moral character of the nation, or its overall level of morality. As might be expected, business ethical behavior is hypothesized to be positively related to the overall morality of a country. A nation with a higher moral fiber is less likely to engage in any unethical practices, including unethical business practices, than a nation with a low moral character.

In sum, the complete model, the model containing all three explanatory variable, suggests that business ethical behavior depends on three essential factors, opportunity, character, and circumstances. Greater market dominance gives business more opportunity, through heightened political and economic influence, to abuse power. A better national moral fiber reduces all unethical behavior, including unethical business behavior. Higher levels of economic development make the circumstances for unethical business behavior, in terms of cost benefit calculations, less favorable.

III. VARIABLE SOURCES

The index used to capture business ethical behavior is the World Economic Forum's ethical behavior of firms index for 2009-10 (World Economic Forum 2011). The Forum's ethical behavior of firms index is based on answers to the survey question, "How would you compare the corporate ethics (ethical behavior in interactions with public officials, politicians and other enterprises) of firms in your country with those of other countries in the world?". The possible answers to the question can range from one to seven, with one indicating, among the worst in the world, and seven indicating, among the best in the world. The index is available for 139 different countries.

The measure of corporate market dominance is a simple modification of the World Economic Forum's extent of market dominance index for 2009-10. The Forum's extent of market dominance index comes from answers to the survey question "how would you characterize corporate activity in your country?". Higher values of the Economic Forum's index of corporate dominance indicate lower levels of corporate dominance. For the Forum's index, the possible answers can vary from one, indicating that it is dominated by a few business groups, to seven, meaning that it is spread among many firms. In order to make the measure of corporate dominance more intuitively appealing, so that higher values of the corporate dominance measure indicate higher levels of corporate dominance, the measure of corporate dominance used in the paper is seven minus the Economic forum's extent of market dominance index.

The measure of the overall moral character of a country is the Crabtree's index of morality, conscience, and the good life for 2013 (Crabtree 2013). The index is based on fifteen different criteria including such things as peace, slavery, gender inequality, economic freedom, and press freedom. The index is available for 181 countries. The scores on the index range from a low score of 27.4 for Afghanistan to the high score of 90.7 for Iceland. Higher scores of the index indicate higher levels of country morality.

Gross Domestic Product per capita for the year 2010 is used to quantify the level of economic development. Its source is the World Bank (World Bank 2014).

IV. CROSS COUNTRY REGRESSION RESULTS

Table I shows the results of cross country regressions of business ethical behavior on corporate market dominance (DOMIANNCE), on the overall level of national morality (MORALITY), and the measure of the level of economic development, GDP per capita (GDPPC).

TABLE I

CROSS COUNTRY REGRESSIONS OF BUSINESS ETHICAL BEHAVIOR ON CORPORATE MARKET DOMINANCE AND OFTHER VARIABLES

	(1)	(2)	(3)	(4)
CONSTANT	6.977 (24.31) *	3.997 (8.89) *	5.579 (15.53) *	3.669 (8.28) *
DOMINANCE	-.8704 (-9.95) *	-.6292 (-7.89) *	-.5570 (-5.73) *	-.4869 (-5.58) *
MORALITY		.0348 (7.86) *		.0302 (6.24) *
GDPPC			.000021 (5.63) *	.000012 (3.27) *
RSQ	.421	.602	.523	.633
N	138	136	135	133

The table consists of seven rows and five columns. The first column identifies the potential explanatory variables. the next four columns, column two through column four, show the results of a single regression equation, one regression per column. The regressions are numbered in the first row. When a variable enters an equation, the top value in the body of the table for that variable and the equation in question shows the estimated coefficient for that variable in that equation. The number underneath the estimated coefficient in parenthesis is its individual t-statistic. A variable that is significant at the one percent level or significance in an equation is marked with an asterisk under its individual t-statistic. The last row shows the number of countries entering each equation (N), while the second to the last row provides the r-squared value for each equation (RSQ).

Table I contains four different regressions. The first is the regression of business ethical behavior using corporate dominance on its own as the sole explanatory variable. The second and third equations, on the other hand, look at the effect of corporate dominance when taking into account one of the two other two explanatory variables. The second equation estimates the effect of corporate market dominance on business ethical behavior after adjusting for the overall level of country morality. The third equation measures the impact of corporate market dominance on

business ethics after controlling for the level of economic development. Finally, the fourth equations considers the potential impact of corporate market dominance on business ethical behavior after adjusting for both country moral character and the level of economic development.

The results lend strong support for the contention that greater corporate market dominance leads to more lax ethical business behavior. In each and every one of the four equations in table I, corporate dominance is negative and significant at the one percent level of significance or higher. Corporate dominance proves to be important for business ethics whether used as the sole independent variable as in equation one, when adjusting for the overall level of morality in society as in equation two, when adjusting for the level of economic development as in equation three, and when, as in equation four, taking into account both the general morality of society and the level of economic development. Looking at the first equation shows that corporate dominance on its own accounts for over forty two percent of the cross country variation in the business ethical index. This is a high value for a single repressor in a cross section.

The other variables also behave in line with theoretical expectations. As theoretically predicted, the estimated coefficient on the general level of morality is positive in the two equations in which it appears (equations (2) and (4)). The variable is significant at the one percent level of significance or better in both equations. The level of economic development is positive and significant at the one percent level or better in the two equations that it enters (equations (3) and (4)).

Taken together, corporate market dominance, coupled with the general level of societal morality and the level of economic development, account for over sixty three percent of the cross country variation in business ethical behavior (equation (4)).

V. CONCLUSION

The purpose of business is to make products, produce good products that are beneficial to people, that enhance social welfare. Unethical business behavior allows business to acquire income at society's expense by misusing its command over society's valuable resources, by outright cheating, by making bad products, by treating labor inhumanly, and by lowering economic welfare from what it could be by various other means. This paper provides empirical evidence that greater corporate dominance is detrimental to business ethical behavior. Whether corporate market dominance is used alone in cross country regressions or controlling for other variables, corporate market dominance has a statistically significant negative effect on business ethical behavior. Thus, it appears that extensive market power is not just unfavorable on economic grounds causing a misallocation of resources, but on moral grounds as well.

The policy implications are clear. The health of society, both economically and morally, can be augmented by increasing competition and reducing business dominance in markets. Measures need to be undertaken to prevent business from increasing their market dominance, and to assure that market dominance is kept within limits. Firms with too much market dominance need to be broken down into smaller pieces.

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