

The Model of Ethical Culture and Capabilities Influencing Reputation of Banks in Thailand

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Abstract: The current study aims to examine the effect of ethical culture to corporate reputation. This research focused on ethical culture, corporate capabilities and corporate reputation of banks in Thailand. The main investigation were to examine: the effect of ethical culture to corporate capabilities, the effect of corporate capability to corporate reputation and the effect of ethical culture through corporate capabilities to corporate reputation. The samples were 385 managers of banks in Thailand by systematic random sampling. The questionnaires were distributed and explained to the respondents by researcher for better understanding to respond. The structural equation model was used to analyze data. The findings reveal that ethical culture has direct effect to capabilities and reputation of an organization. The corporate capability has direct effect to corporate reputation. Moreover, ethical culture affects to corporate reputation both directly and indirectly through corporate capabilities. As a result, it is necessary for sustainable business to build an ethical culture and capabilities integrated through whole part of an organization.

Key words: Ethical culture, capabilities, reputation, banks, sustainable business

INTRODUCTION

Corporate reputation has attracted attention from a wide range of both academic and business. Corporate reputation management is heartily and continuously considered on multi-dimension of perceptions that are crucial keys to business performance. Banking can consider by which any strategic decision plays important role to standard of living of people, organization and holistic view of national economic. Bank responds mainly in any requirement as financial products and services; however, it has to concern with multi-dimension of perception about corporate performance. It is therefore, necessary to investigate in benefit from corporate ethical culture and corporate capabilities that can create corporate reputation and supporting on strategic decision in order to provide future sustainability.

Review of literature and hypothesis development

Ethical culture and corporate capabilities: Corporate culture consists of values, both implicit and explicit of the firm. The explicit values are captured by the concept of corporate ideology. Basically, ethical behavior involves “doing the right thing”. It is considered essentially for corporate sustainability (Avery and Bergsteiner, 2011). Ethical culture and capability within organization as related with knowledge resource base are intangible asset. Both factors would be critical to the reputation of the organization rather than tangible asset. The assessment

of corporate reputation perceptions, feelings, beliefs and referent information about the organization is taken from the past to the present. Corporate ability and ethical culture affect to the assessment of corporate reputation (Brown and Dacin, 1997). Resource-based view research has been criticized to give elaboration of how firms build capability (Cavusgil *et al.*, 2007).

Ethical culture, corporate capabilities and corporate reputation: It has been suggested recently that perception of firm’s ethics plays a significant role attractiveness for stakeholder of organizations (Greening and Turban, 2000). Corporate ethical virtues are the organizational conditions for ethical conduct. They reflect the capacity of an organization to stimulate ethical conduct of employees (Kaptein, 2008). Corporate reputation and corporate capability are abstract and intangible asset. All organizations purpose mainly to reach into 2 aspects namely sustainable competitive advantages and organization performance (Barney, 1991; Kaplan and Norton, 2004). There is potential of good and sustainable performances of an organization (Roberts and Dowling, 2002) and to generate competitive advantages and high organizations’ performance outcomes (Sabate and Puente, 2003). In addition, it could decrease operation costs and attractiveness of a good skill person to join the organization (Fombrun and van Riel, 1997).

Ethical culture is a form of risk management and can enhance firm's reputation (Avery and Bergsteiner, 2011). Reputation is received by increasing interest in strategic management because it can create intangible resource leading to sustained competitive advantage (Barney, 1991; Dierickx and Cool, 1989). The linking between capability and ethical culture of the organization found that the capability of the organization and ethical culture affect to the assessment of a sense of corporate stakeholders to the organization (Berens *et al.*, 2005).

Corporate which could run transparently, ethical ways can retain stakeholder confidence and maintain their reputations. At the enterprise level, ethics start with instilling desired values and behaviors into employees. Corporate leaders perceive as having high ethics that will have greater success in obtaining employee understanding and commitment to realizing a strategy. The hypotheses can be developed on the basis of previous theoretical discussion:

- H₁: corporate with a large degree of ethical culture could have better corporate capability
- H₂: corporate with a large degree of capability could have better corporate reputation
- H₃: corporate with a large degree of ethical culture could have better corporate reputation

MATERIALS AND METHODS

The purpose of this study was to examine the construct of corporate ethical culture, corporate capability and corporate reputation of banks in Thailand with exploratory factor analysis. Researcher examined the effect of corporate ethical culture and corporate capability to corporate reputation. Path analysis and structural equation model by AMOS Software Program were employed. The systematic random sampling was taken on 385 managers of banks in Thailand. The questionnaires were distributed and explained to the respondents by researcher for better understanding to respond.

The measurements composed of ethical culture follow by Kaptein (2008). In the parts of corporate capability, it was used by Sharma and Vredenburg (1998), corporate reputation was used by Fombrun *et al.* (2000). The questionnaire was adapted from academicians to comply with context of a bank in Thailand. Respondents were encouraged to rate each item on a 5 point scale ranging from strongly disagree to strongly agree.

A pilot test was carried out to assess the validity and reliability of the questionnaire by thirty respondents of bank's managers. The items of ethical culture reveal 0.845

and corporate capability reveal 0.926, corporate reputation reveal 0.975 and all of indicators have total reveal 0.972 of Cronbach's alpha. The validity of the questionnaires were determined by the use of exploratory factor analysis to determine component of ethical culture, corporate capability and corporate reputation.

The data collected was initially fed into SPSS for descriptive analysis and exploratory factor analysis. Variables were transformed to make them usable for Analysis of Moment Structures (AMOS). Structural equation modeling technique was used to analyze the data and to test hypotheses. The structural equation model technique is an important tool which involves identification of variable and development of theoretical model. Hypotheses are then framed based on theoretical model. Primary data was collected through survey questionnaires and hypotheses are tested on the bases of collected data.

RESULTS AND DISCUSSION

An exploratory factor analysis of ethical culture, corporate capability and corporate reputation can explain below.

Ethical Culture (EC) has explained 60.02% of the variance. We also assessed the internal reliability of ethical culture by calculating Cronbach's alpha for each dimensions by using 5 items scale of manager's perception. All values were satisfactory; the 5 competences items = 0.833. After rotation of a clean factor structure for employee's perception, the components were displayed in Table 1.

Corporate Capability (CAP) has explained 60.02% of the variance. We also assessed the internal reliability of corporate capability by calculating Cronbach's alpha values was satisfactory at 0.833. After rotation of a clean factor structure for corporate capability, the components were displayed in Table 2.

Corporate Reputation (REP) has explained 70.24% of the variance. We also assessed the internal reliability of the two dimensions of corporate reputation dimension by calculating Cronbach's alpha for each dimension by using 16 items scale of employee's perception. All values were satisfactory; the 11 competences items = 0.948, the 5 workplace environment items = 0.934 and all of items = 0.960. After rotation of a clean factor structure for employee's perception, the components were displayed in Table 3.

The estimate model fits the data reasonably well. It was assessed by examining several Goodness of Fit (GFI) = 0.950, Adjusted Goodness of Fit (AGFI) = 0.924,

Table 1: An exploratory factor analysis of Ethical Culture (EC)

Indicators	Components	Factor loading
EC1	In our company, everyone is totally committed to the norms and values of the organization	0.742
EC2	In our company, there is atmosphere of mutual trust prevails	0.751
EC3	In our company, everyone plays the highest interests	0.759
EC4	In our company, a mutual relationship of trust prevails between employees and management	0.817
EC5	In our company, everyone treats one another with respect	0.802
	Cronbach's alpha	0.833

Total variance explained = 60.024; KMO = 0.837; Bartlett's test of sphericity approx.; Chi-square = 671.575; df = 10; p = 0.000

Table 2: An exploratory factor analysis of Corporate Capability (CAP)

Indicators	Components	Factor loading
CAP1	The objectives of our company are driven primarily by customer satisfaction	0.750
CAP2	Our existing competency can withstand any changes in the industry	0.830
CAP3	Our existing competency can withstand business environment	0.821
CAP4	In new product and service introductions, our company is often firstly come to the market	0.823
CAP5	Senior executives constantly seek unusual, novel solutions to solve any problems	0.825
	Cronbach's alpha	0.867

Total variance explained = 65.638; KMO = 0.827; Bartlett's test of sphericity approx.; Chi-square = 925.740; df = 10; p = 0.000

Table 3: An exploratory factor analysis of Corporate Reputation (REP)

Indicators	Descriptives	Factor loading	
		Factor 1	Factor 2
REP_O1	Our company has a strong record of profitability	0.727	-
REP_O2	Our company seems a company with strong prospect for future growth	0.715	-
REP_O3	Our company has trends to outperform overcompetitions	0.792	-
REP_P1	Our company stands behind its products and services	0.744	-
REP_P2	Our company develops innovative product and services	0.719	-
REP_P3	Our company offers product and service that are good for income	0.735	-
REP_P4	Our company offers high product and services	0.746	-
REP_L1	Our company has excellent leadership	0.640	-
REP_L2	Our company has clear vision for our future	0.676	-
REP_S1	Our company supports good reason	0.716	-
REP_S2	Our company has been recognized by international organizations	0.749	-
REP_W1	I have a good feeling about our company	-	0.842
REP_W2	Our company seems a good company to work for	-	0.839
REP_W3	I admire and respect our company	-	0.843
REP_W4	Our company is well managed for success	-	0.768
REP_W5	Our company seems a workplace that would have good employees	-	0.753
	Cronbach's alpha	0.948	0.934

Total variance explained = 70.242; KMO = 0.949; Bartlett's test of sphericity approx.; Chi-square = 5598.035; df = 120; p = 0.000

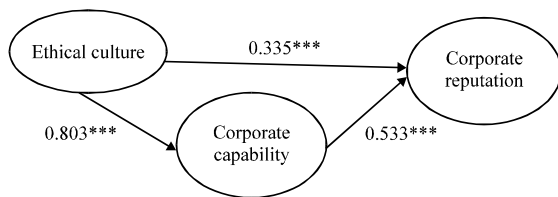


Fig. 1: The model of ethical culture and capabilities influencing reputation

Comparative Fit Index (CFI) = 0.995, Root Mean Square Error of Approximation (RMSEA) = 0.020, $\chi^2 = 266.602$, df = 231, p-value = 0.054 and ratio between Chi-square and number of degree of freedom = 1.154 (Fig. 1).

The corporate ethic had high effect towards the corporate capabilities likewise corporate capabilities had effect to corporate reputation. While, the corporate ethic took role in effect to corporate reputation in both direct effect and indirect effect. This research confirms the

necessity for businesses to establish an ethical corporate culture with stronger awareness on ethical. Businesses could no longer move on without having ethical culture. Evidently, this research finds that corporate has higher expectation towards firms to be ethical corporate culture. They are willing to exercise their power to support companies with positive reputation.

CONCLUSION

This study contributes to the literature in several ways. First, by identifying ethical culture as an important driver of corporate capability. The integration of ethical culture and corporate capability for creating corporate reputation particularly in the corporate reputation in dimension of workplace environment and dimension of corporate performance. The results of the present study indicate that the level of corporate reputation depends on ethical corporate culture and corporate capability which

is in line with the study by Roberts and Dowling (2002). Ethical culture had both direct and indirect effect passed through the corporate capability by which rather low direct effect but high indirect effect.

RECOMMENDATIONS

This research has studied the effect of ethical corporate culture to corporate reputation, it found that corporate capability is mediator. In fact, corporate reputation may come from the reasons more than ethical culture and corporate capability of the organization. Corporate reputation has affected by numerous factors. Researcher should examine other factors that related to the reputation of an organization. The corporate reputation may come from corporate strategy or devotion caused by social responsibility of the organization.

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