Business Ethics in Subsidiaries of Multinational Companies in the Czech Republic

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Ethics

- hot topic in CEE countries
  - public, private, business life
- business ethics (not only) in the Czech Republic
  - becomes increasingly important
  - interconnects public and private sector
  - unethical aspects of the transformation process
  - growth of direct foreign investments
  - increasing number of countries involved in the international trade
  - looking for global ethic rules
Specifics of the Czech environment

- small, very open economics
- part of the European Union
- historical impacts of the totalitarian regime
- moral hazards of the transformation
- initial shortcomings of the system itself
Multinational companies and ethics

- mediate involvement of the country in the international structures
- contribute to the culture and business ethics in the country
- application of the international business ethical rules
- inadequate exploration of possible negative impacts influencing local interest groups
- requirements
Research

- Research Centre for Competitiveness of Czech Economy
- sample
  - subsidiaries of multinational companies in the CZ
  - full or partial share of foreign capital
  - number of employees exceeding 50
  - turnover over 30 million crowns (approximately EUR 1.2 million)
  - form of a joint stock company or limited company
- whole target population was approached (2509)
- answered 403 companies, 68 excluded, 335 processed (13.35%)
Topics of the research

- access to Czech market
- organizational structure
- centralization and decentralization
- knowledge and innovations
- ethics and culture
- strategies
Questionnaire

- open, semi/open and closed questions
- direct postal and telephone contact
- distribution online
- telephone reminders
- translations to English, German and Russian

Verification

- 10 MNC subsidiaries
- controlled interview with senior manager
- processing internal materials
Sample

- 13.35% of the population introduced
Processing

- checking data
- coding
- univariate analysis (mean, median, standard deviation)
- bi-variation analysis (frequency, degree of central tendencies)
Results
Code of ethics existence

- Yes: 228 (69%)
- No: 103 (31%)
Code of ethics existence – industry sector

- M – professional, scientific and technical activities (95 %)
- G – wholesale and retail, repairs and maintenance of motor vehicles (75 %)
- C – processing industry (61 %)
- F – civil engineering (55 %)
Code of ethics existence – number of employees

- more than 250 employees (77 %)
- 100–249 employees (65 %)
- 50–99 employees (60 %)

Code of ethics existence – implementation

1) existing code of head office (56.4 %)
2) adapted head office code (23.1 %)
3) processed locally (19.6 %)
4) others (0.9 %)
Code of ethics existence – implementation

- 56.4% (Column 1)
- 23.1% (Column 2)
- 19.6% (Column 3)
- 0.9% (Column 4)
Culture and code of ethics

- determination of dominant culture
  - how to ask for that?
  - what do we want to know?
  - domicile?
    - domestic country of the head office?
- connection between dominant culture and code of ethics
Structure of the sample

<table>
<thead>
<tr>
<th>Culture</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>German</td>
<td>122</td>
</tr>
<tr>
<td>U.S.</td>
<td>36</td>
</tr>
<tr>
<td>Austrian</td>
<td>26</td>
</tr>
<tr>
<td>British</td>
<td>20</td>
</tr>
<tr>
<td>Dutch</td>
<td>16</td>
</tr>
<tr>
<td>Japanese</td>
<td>15</td>
</tr>
<tr>
<td>Swiss</td>
<td>13</td>
</tr>
<tr>
<td>Spanish</td>
<td>11</td>
</tr>
<tr>
<td>French</td>
<td>9</td>
</tr>
<tr>
<td>Russian</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>271</strong></td>
</tr>
</tbody>
</table>
# Implementation of the code of ethics

<table>
<thead>
<tr>
<th>Country</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>91.7%</td>
<td>8.3%</td>
</tr>
<tr>
<td>British</td>
<td>90.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Swiss</td>
<td>76.9%</td>
<td>23.1%</td>
</tr>
<tr>
<td>Japanese</td>
<td>73.3%</td>
<td>26.7%</td>
</tr>
<tr>
<td>German</td>
<td>69.7%</td>
<td>30.3%</td>
</tr>
<tr>
<td>Spanish</td>
<td>63.6%</td>
<td>36.4%</td>
</tr>
<tr>
<td>Dutch</td>
<td>62.5%</td>
<td>37.5%</td>
</tr>
<tr>
<td>French</td>
<td>55.6%</td>
<td>44.4%</td>
</tr>
<tr>
<td>Austrian</td>
<td>46.2%</td>
<td>53.8%</td>
</tr>
<tr>
<td>Russian</td>
<td>33.3%</td>
<td>66.7%</td>
</tr>
</tbody>
</table>
Financial performance and code of ethics

- financial performance based on ROA
- differences are not significant, but
  - A (the best) – 75 %
  - B (average) – 70 %
  - C (low) – 63 %
Conclusions

- ethic code is significantly represented in the subsidiaries of MNCs
- strong connection of code of ethics with headquarters
- publicized ethical problems connected to the industry, where the implementation of code of ethics is lower – civil engineering
- positive phenomenon of the implementation of business ethics through code of ethics
- positive relation between code of ethics and financial performance
Future of the research

- looking for relations between separated segments of the research
- causalities and specifics of the ethical business behaviour on the post-transformation markets
- comparison with local companies
- impact of the code of ethics on the business ethics in the company – „first but not last step“
Thank you for your attention!