Factors Influence Employee Level of Integrity in Automotive Company

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Abstract

This study investigated the factors that influence employee level of integrity at UMW Toyota Motor. There are three factors identified as the predictor in the study, namely, individual, organizational, and situational factors, which are expected to affect employee level of integrity. Data were collected through questionnaires distributed between October 2018 and March 2019 to all employees of UMW Toyota Motor. A total of 300 respondents were approached, and 137 (46%) questionnaires were returned for analysis. The data collected were analyzed using descriptive, correlation, and regression analysis. The finding concluded that the level of integrity among employees of UMW Toyota Motor is high. The regression analysis result showed that situational factors have significant and positively associated with the employee level of integrity. The result indicated that situational factors such as peer pressure, financial distress, leadership influence, and ethical norms at the workplace affected the integrity level of employees.

Keywords: Integrity, automotive industry, situational factor, organizational factor, individual factor.

1. Introduction

Consumers now are more aware of the conservation of the environment, sustainability, and ethical business practice besides quality and safety when deciding to purchase a car. These are the key factors that drive competitiveness among automotive players globally. The global economic crime rate in year 2016 reported stood at 36%, which is just one percent lower than reported in the year 2014. In the year 2018, the economic crime rate showed an increase of 14 percent to 49% (PwC, 2018). Previously, the financial services industry has conventionally been recognized to be the industry most threatened by the economic crime. However, it is reported that the trend has shifted from the financial services industry to the non-financial services industry, including the automotive, retail and consumer, and telecommunication sector. The economic crime rate in the automotive industry is accounted for 29% globally (PwC, 2016). An increase in the rate of economic crime cause companies to increase their spending on fighting corruption and economic crime. The forms of economic crime that commonly happened across industry is asset misappropriation, business misconduct, cybercrime, bribery and corruption, and consumer fraud (PwC, 2018). Thus, multiple re-call issues and scandals that currently happen among major automobile makers have raised other issues such as the ethical and integrity of the automobile business practices — for example, Volkswagen cheating cases on emission tests of their diesel car.
According to Emiliani (2008), automotive industry companies shall employ individuals with integrity. He stressed that it is essential to hire the right man with good character (i.e., high integrity, reliable and honest), which will reduce integrity risk and other costs that might occur due to economic crime. Besides, Becker (1998), suggested that employees with a higher level of integrity are more valuable as they are more motivated to innovate and be productive. A company should hire individuals who have good character or else individuals with bad character will use their skills to deceive and evade company profit and reputation. Kaptein and Avelino (2005) provided evidence that management should consider monitoring employee’s integrity level within the organization by examining and identifying the factors that influence the integrity level of a company from the perspective of an individual employee. Past incidents have provided evidence to major automotive industry employers to hire an employee with skills, knowledge, and experience, but more important is to have integrity.

The word 'integrity' is originated from the Latin word 'integer' which is a singular word that means fresh, unimpaired, virgin, and as a wholeness and complete. The word integer in the plural is 'integritas' which refers to morals in the English language (Bauman, 2011). Integrity is also defined as a psychological construct that influences organizational behaviour that had received considerable amount of focus in various industry and attributed in employee's wellness, central trait of leadership, trust determinant and component for work performance and also as an indicator for counter-productive behaviour (Barnard, Schurink, & Beer, 2008). They also asserted that even after two decades, integrity remains complex as the construction of integrity remains vague and unclear by which it continuously remains too broad or indistinct and attracted numerous debates. Based on the above definitions, integrity is referring to good individual qualities that reflect their strong values and principles on honesty, trust, responsibility, accountability, and transparency. Individuals with high integrity would usually practice what they preach and will always do good as it is the right thing to do.

In Malaysia, integrity is generally associated with corruption and bribery. Manifestation on the importance of integrity in Malaysia has been introduced in Mission 2020 to achieve the goal of becoming a developed country where citizens should enhance ethics and integrity so that it becomes part of the society's culture. The effort becomes more apparent with the establishment of the Malaysia Institute of Integrity (IIM) and National Integrity Plan in year 2004 to influence a moral and ethical society with high ethical standards (Salleh, 2007). Next, in the year 2009, the government introduced the Government Transformational Program (GTP) and National Key Result Areas (NKRAs) with the aim to transform government to be more effective in its service delivery and be accountable for outcomes that matter most to the people; and to help Malaysia move forward to become a developed, united and just society with high standard of living (Abdullah, Sulong, & Said, 2014). Then as a measure to enhance integrity, transparency, and accountability of both public and private sectors’ employees, the IIM has also developed and launched the Integrity Pledge in the year 2014. Thus, all the above efforts show the government commitment to cultivate integrity culture within an organization and Malaysian’s citizen.

Based on the survey conducted by Group Integrity Unit of UMW Holdings Berhad in 2015, the level of employees' understanding of 'Integrity' is accounted for 20 percent only compared to honourable (46%), corruption (43%), and whistleblowing policy (28%). Furthermore, the survey highlights two key findings. Firstly, the factors that influence integrity are not clear. Secondly, the implementation of risk management concerning integrity risk also has not been identified. The survey also reported that the company has to handle
various deviant behaviour of their employees either from sales and after-sales services. Some of the examples of deviant behaviours are unauthorized transactions, criminal breach of trust, and changing parts without customers’ authorization. These deviant behaviours could negatively affect the image and reputation of the UMW Toyota Group. Furthermore, there also concern from the UMW Corporation group integrity unit that it is difficult to track employees' integrity level and costly to measure employees' integrity level regularly and provide a long-term solution for the management in order to handle the integrity risk in the company (UMW Toyota - Group Integrity Unit, 2015).

![Figure 1: Level of Employees Understanding on Integrity](source)

Automotive industries are intensely competitive nowadays as car production and technology indicate that the automotive players make vast improvement. Awareness about vehicle quality and employee behaviour become a significant point for customer to consider the brand and models offered. Reputation is the most crucial intangible asset in the automotive industry as people buy a car from the manufacturer or brand they trust (Sandu, 2015). One way to build trust is a commitment to integrity (Kannan-Narasimhan & Lawrence, 2012; Engelbrecht, Heine & Mahembe, 2017). Due to the recent scandal involving the automotive industry, UMW Toyota, needs to give its full commitment to improve the integrity in order to reduce reputation and integrity risk, which impacted the trust that the customer has on the Toyota car brand. Therefore, the researchers are interested in determining the level of employee integrity, which targets UMW Toyota employees and examining the factors that influence employees' integrity level in the organization. This study also intended to enlighten gaps in the literature, specifically on the topic of integrity and factors that influencing it.

The paper is organized as follows: the next section presents the institutional settings of UMW Motor Sdn Bhd and then followed by the literature review and hypotheses development section, the next research method, and the finding and discussion section, and lastly, the conclusion section is presented.

2. Institutional Settings of UMW Toyota Motor Sdn Bhd

UMW Toyota Motor Sdn Bhd is a subsidiary company to UMW Holding Berhad. The company was founded in October 1982 as Sejati Motor Sdn Bhd. The company name was changed to UMW Toyota Motor (UMWTM) Sdn Bhd in 1987. UMWTM is a 51:39:10 joint
venture between UMW Malaysia, Toyota Motor Corporation (TMC), and Toyota Tusho Corporation of Japan. UMWTM is the appointed Toyota distributor, assembler and exporter of Toyota vehicles in Malaysia. The company is also responsible for the marketing and distribution of Toyota Luxury Brand, Lexus. UMWTM has established an extensive coverage of over 91 sales centers and 80 after-sales outlets, including 15 Lexus Branch and dealers across the nation. At present, UMWTM has three (3) leading subsidiary companies (UMW Holdings Berhad Annual Report 2018):

1. Assembly Service Sdn Bhd (ASSB)
2. Automotive Industries Sendirian Berhad (AISB)
3. Toyota Boshoku UMW Sdn Bhd

The core values of UMWTM represent ways the employees work and perform their daily activities, which become the essence of UMWTM identity and image. The core values-driven on how the employees react through behavior, visual expression, tone, and manner. There are four (4) core values, which are Honor, Vibrant, Unshakeable, and Pioneering. Employees are to be driven by UMWTM values, i.e., ‘Honor,' where they are to continuously display integrity and trust when managing stakeholders, customers, suppliers, vendors, and contractors. The core values are also applicable to all UMWTM employees.

The UMWTM Code of Business Conduct and Ethics incorporate the company stance concerning integrity in business conduct. The code provides a clear guideline on how employees should conduct themselves in managing the company's business affairs which includes, among others, confidentiality of information and dealings in securities. It also details and warns against undesired conduct such as conflict of interest, offering or receiving bribes, dishonest conduct, anti-competitive practices, and sexual harassment. The code of business conduct and ethics becomes the company pillar in promoting a high standard of ethical values and integrity in an environment that is harmonious and dynamics. Employees, in return, should act with integrity and in-line with sound social norms, which is essential to the success of UMWTM. Thus, in order to achieve a sustainable working environment, employees from all the levels should make a commitment to adhere with company internal rules and regulation and strive to carry out their duties/daily task with integrity and socially acceptable manners to improve and build UMWTM's business performance regionally or globally.

In support of the National Integrity Initiatives, the company established the UMW Integrity Unit (UIU) in 2014 to enhance its CG practices and business ethics further. Upon the appointment of the Head of UIU, the Board has endorsed the formation of the Integrity Committee (IC) on 8 January 2015. The IC is chaired by an independent non-executive board member, who is also the Chairperson of the Board Whistleblowing Committee. The UIU is the secretary of the IC, and the members of the committee are made up of representatives from various Division/Department/Unit of the UMW Group. The main objectives of the UIU are to emphasize integrity awareness and educating and spreading the importance of managing potential high-risk issues, i.e., fraud and corruption.

In 2018, as an effort to emphasize the importance of integrity among employees, the UIU organized a Corruption Free Pledge that led by President and Group CEO with company management and its employee and witness by the Deputy Commissioner of Malaysian Anti-Corruption Commissions (MACC). This effort indicates the importance of integrity in the organization and readiness of the company to manage high-risk management for fraud and corruption (UMW Holdings Berhad Annual Report, 2018). UIU also has come out with
various initiatives to create more awareness regarding integrity across the group and all its employees. Information on integrity and personal values are distributed and communicated to educate and provide guidelines to employees to react positively towards ethical dilemmas. It is hoped that these initiatives can reduce unethical behaviour and improve employee's integrity level in the company.

3. Literature review and hypotheses development

Prior study has found that a company with high employees' integrity and cultivate integrity culture within an organization impacted on business efficiency and it also positively impacted the financial performance over the years (Jones & Kavanagh, 1996; Becker, 1998). Besides, Rosli, Abd Aziz, Mohd, and Said, (2015) claimed that an organization with high integrity might have the potential to contribute towards competitive advantage and improve public trust and transparency in all its activities. Another study on integrity by Alam, Said and Abdul Aziz (2018) which assess on the accountability and its relationship with the practices of integrity system, internal control system and leadership qualities in the public sector of Malaysia. The result of their study show that the practices of the integrity system is affected by the leadership quality, but the result of the internal control system showed a mixed relationship with the practices of accountability. Their study reveals that an integrity system can help an organization to enhance its accountability to the various group of stakeholders. Besides, according to Klewes and Wreschniok (2009), product and price strategies have no longer been the only deciding factor for competition. The focus has now turned to the competency, integrity, and the attractiveness of a company in protecting public trust. Thus, various benefits will be gained by the organization if integrity becomes the focal point of the organization.

According to O'Fallon and Butterfield (2005), individual factor plays important roles to determine how an individual react and behave. The individual factors such as race, gender, religion, working experience, and educational background are factors identified to have a significant impact on the individual level of integrity. Vast prior studies have found that employees' integrity level is positively associated with individual factors. Mason and Mudrack (1996) found that in terms of gender, female employees have a more ethical scale compared to male employees. The race of an individual employee is associated with different ethical standards (McCuddy & Peery, 1996). Singhapakdi, Marta, Rallapalli, and Rao (2000) found that the religiousness of marketers significantly influences their personal ethical and moral perception.

However, Smith, DeBode, and Walker (2013), in their study, found that age, sex, religion have no significant influence on ethical judgment. Based on the above arguments, the study hypothesizes that:

$H1$: There is a positive relationship between individual factors and employee level of integrity.

Organizational factors are other essential factors that might have a positive or negative impact on the integrity level of an employee in an organization. Zipparo (1998) stipulates that the ability to behave ethically in a workplace may be related more to aspects of the organization than to the attributes of the individual. Organizational culture on ethics, ethical training, code of ethics, shared norms, and rewards are some of the examples of the
organizational factors which can help reinforce employee to behave ethically. According to Vardi (2001), the organizational ethical climate is negatively related to unethical behavior, especially if concerning rules, rewards, and supports. Furthermore, Eynon, Hill and Stevens (1997) found that employees who completed an ethics course recorded significantly higher integrity scores compared to employees who did not complete the course. A study conducted among accounting students also evidence the same result; students who attended an ethics course improved better in their ethical judgment ability (Mohamed Saat, Porter & Woodbine, 2010). Also, Hulsart and McCarthy (2011), in their study, found that creating a culture of trust can promote integrity within an individual. Granitz (2003) also found that an individual employee who shared their perception of social ties, personal morals, code of ethics and locus of control with the other employees will share similar ethical reasoning and moral intent. McNutt and Batho (2005), agreed that in order to have good governance, a code of conduct, or code of ethics is crucial to guide employees not only for the right or wrong action. A good code of ethics should emphasize the contractual sense of responsibility and accountability within the firm stakeholders. Thus, the study hypothesizes that:

\[ H_2: \text{There is a positive relationship between organizational factors and employee level of integrity.} \]

Situational factors are types of factors that cannot be controlled by an individual, but the factors provide more influence on an individual to reacts to a situation. Many scholars have argued that situational factors might exert strong effects on unethical behavior (Glover, Bumpus, Logan & Ciesla, 1997; Jaakson, Masso & Vadi, 2013). Mumford, Connelly, Helton, Strange, and Osburn (2001) have identified seven situational factors that may impact on employee integrity. They are alienation, non-supportive family, negative role models, life stressors, competitive pressure, exposure to negative peer groups, and financial need. According to Hoch (2013), in terms of integrity, vertical transformation, empowering leadership, and team composition were positively related to shared leadership. Ross and Robertson (2003) also concluded that situational factors might interact with individual factors in the decision making of salesperson about ethical issues. As such, the study hypothesizes that:

\[ H_3: \text{There is a positive relationship between situational factors and employee level of integrity.} \]

4. Research Method

A quantitative study was carried out to investigate the factors that influence the employee level of integrity at UMW Motor. A set of questionnaires was developed and distributed to the employees working at UMW Motors, Shah Alam. The list of employees was obtained from the Human Resource Department of UMW Motor. Data were collected through questionnaires between October 2018 and March 2019. The questionnaire distribution was done using two approaches, namely, online questionnaire and direct visits to the UMW Motors company sites located in Shah Alam. A total of 300 respondents were approached, and 137 (46%) questionnaires were returned for analysis. The data gathered were tabulated and analyzed quantitatively using the Statistical Packages for Social Sciences (SPSS) version 22. The study analyzed the data using descriptive, correlation, and regression analysis. Descriptive analysis was used to describe the profile of the respondents involved in
the study. In addition, the mean value is calculated to determine the employee level of integrity. Correlation analysis is run to examine whether there is a relationship between individual, organizational and situational factors, and employee level of integrity. Lastly, regression analysis is conducted to test all the hypotheses developed in this study.

The questionnaire comprised of five sections: i) Section A (demographic profile of the respondents), ii) Section B (level of integrity – using Five-Likert scale), iii) Section C (Individual factors - using Five Likert scale), iv) Section D (Organizational factor – using Five-Likert scale), and v) Section E (Situational factors - using Five-Likert scale).

5. Findings and Discussion

Table 1 shows the demographic profile of the respondents. It was found that the respondents of the study consist of 50.6% males and 49.4% females. The majority of the respondents were Malay (59.9%), followed by the Chinese (21.9%), Indian (14.6%), and other race groups (3.6%).

Based on Table 2, the Malay employees were seen to play a significant role in this study. Most of the respondents were married (51.1%). Majority of the respondents fall under the age group between 26 to 35 years old (39.4%). In the working experience category, 46% of the respondents have served the company for 3 to 10 years. In addition, 74.5% of the respondents were from the Managerial level compared to 25.5 % of Union level.

Table 2: Scale and indicator of mean value

<table>
<thead>
<tr>
<th>Mean value</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 1.67</td>
<td>Low</td>
</tr>
</tbody>
</table>
Table 3 shows the mean value of the employee level of integrity. By referring to the scale provided in Table 2, if the mean value falls between 3.35 to 5.00, it is considered as high. This value indicates that the level of employee integrity at UMW Motor was high (4.3114), as measured by mean.

<table>
<thead>
<tr>
<th>Mean Value</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.68 – 3.34</td>
<td>Moderate</td>
</tr>
<tr>
<td>3.35 – 5.00</td>
<td>High</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee level of Integrity</td>
<td>4.3114</td>
<td>0.5486</td>
</tr>
</tbody>
</table>

For the employee's level of integrity and individual factors, the result shows an inverse relationship, but the relationship is not significant. Next, for organizational factors, there is a small significant positive relationship between the employee's integrity level and organizational factors. Finally, situational factors have a positive and significant relationship with the level of employee integrity. Thus, the correlation analysis result provides initial support to the hypotheses developed in the study. Please refer to Table 4.

Table 4: Correlations between individual, organizational and situational factors and employee integrity level

<table>
<thead>
<tr>
<th>Variable</th>
<th>Employee Integrity level</th>
<th>Individual Factors</th>
<th>Organisational Factors</th>
<th>Situational Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>-0.098</td>
<td>0.174*</td>
<td>0.485**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>0.035</td>
<td>-0.190*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>0.226**</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
**Correlation is significant at the 0.01 level (2-tailed)

Table 5 presents the multiple regression results of the study. The result showed that individual factors have negatively and not significantly related to the level of integrity (β = -0.011, p > 0.001). Thus, hypothesis H1 is not supported and rejected. Next, the relationship between organizational factors and employee level of integrity shows a positive sign, but the relationship is not significant (β = 0.068, p > 0.001). Hence hypothesis H2 is not supported. Finally, the situational factors have positively and significantly related to the level of employee integrity (β = 0.467, p < 0.001). This result confirms the correlation result earlier, which showed that situational factors were related to the integrity level of employees at UMW Toyota Motors. Therefore, hypothesis H3 is supported.

Table 5: Regression analysis results.

<table>
<thead>
<tr>
<th></th>
<th>Predicted sign</th>
<th>Standardized Coefficients (β)</th>
<th>t</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td></td>
<td>2.134*</td>
<td>6.016</td>
</tr>
<tr>
<td>Individual Factors</td>
<td>+</td>
<td>0.125</td>
<td>1.651</td>
</tr>
<tr>
<td>Organisational Factors</td>
<td>+</td>
<td>0.021</td>
<td>0.876</td>
</tr>
<tr>
<td>Situational Factors</td>
<td>+</td>
<td>0.465**</td>
<td>5.896</td>
</tr>
</tbody>
</table>

R = .493
R² = .243
Adjusted R² = .226
Durbin-Watson = 1.939
The first objective of the study is to determine the employee level of integrity. The mean value of the dependent variable, which is the level of integrity of the company's employees, has been analyzed. The mean value showed a high level of integrity. This result indicated that the integrity level of employees at UMW Toyota Motor is high.

Next, the study found that individual factors, namely, gender, religion, race, working experience, and family upbringing value, have no association with the level of employee integrity. The finding in this research contradicts with the previous studies. Glover et al. (1997), found a significant relationship between individual values and ethical behavior of the employees working in manufacturing industries in South Carolina. Besides, the researchers stated that the respondents' high level of need for achievement, gender, working experience serve as critical individual factors that influence the integrity level. However, there is also a study that found individual factors do not provide any significant effect on the level of integrity of an employee. According to Ryan, Schmit, Daum, Brutus, McCormick and Brodke (1997) there were many arguments in the literature for the factors that contribute to workplace integrity, and no doubt that the level of integrity might be affected by the individual factors. Nevertheless, the situational and organizational factors may influence the employee more towards unethical behavior and promotes wrongdoings which directly affects company reputation compared to individual factors (Ross & Robertson 2003).

The organizational factors involve a code of ethics, whistleblowing, confidentiality, rewards, integrity behavior, company culture towards integrity, and company integrity program. The result showed that there was no relationship between organizational factors and the level of employee integrity. In contrast, Kaptein & Avelino (2005) found that organizational factors have a positive relationship with employees' integrity. Zipparo (1998) provides that the ability to behave ethically in a workplace may be related more to aspects of the organization than to the attributes of the individual. He stressed that an organization's ethical culture has a powerful influence over an individual's behavior. Specifically, that people are more likely to behave unethically if their managers behave unethically, organizational values are unclear, ethical behavior is not rewarded, sanctions for unethical behavior are not clear and no ethics training provided.

Finally, the study found that situational factors are positively and significantly related to the employee level of integrity. Factors such as positive peer pressure and good behavior of superior are the critical factors that influence employee level of integrity. Previous studies have also found similar results. For example, Jones and Kavanagh (1996) examine the individual factors and situational factors on unethical behavior at the workplace. They found that all three situational factors, namely quality of work (good versus poor), peer influences, and managerial influences significantly affect employee intention to do unethical conduct at the workplace. Besides, Ross and Robertson (2003), in their study, suggested that many factors can influence the employee integrity level apart from individual and organizational factors. They claimed that situation factors are more influential compared to other factors in influencing the level of employee integrity.
6. Conclusion

From this study, a better understanding of the employee level of integrity was obtained. The finding from the study suggests that the overall employee level of integrity at UMW Toyota Motor are high. This suggests that the efforts made by the company to increase the awareness of integrity have been successfully implemented. However, we do not see a corresponding increase in employee level of integrity. Based on the hypotheses testing results, organizational factors and individual factors have no significant impact on employee level of integrity. As such, the company should focus its effort on improving the effectiveness of these programs by assessing the corporate culture, controls, and governance from integrity perspective, and leveraging new technologies to provide better data insight.

The finding of the study is essential because it reveals the situational factors are the most influential factors that affect the integrity level of an employee. Factors such as peer pressure, good leader, and ethical norms at the workplace are the most influential factors that impact an employee's level of integrity. The company should consider all the above factors in formulating and revising its ethical policy and code of conduct. With this finding, the head of the human resource department, together with GIU have to come out with a better strategy to design ethical training that highlights the issue and risk of integrity that may occur in the company.

Besides, the code of conduct or ethics design by the company should also be revised and improved to provide examples of situations that might trigger an employee to be unethical in their behaviour, actions, and decisions. The code of conduct can guide and help an employee to understand and be aware of the integrity risk and reduce unethical conduct. Besides, the employee can make a sound judgment if there are aware and expose to the situation that can trigger unethical conduct. A proper and effective internal control system, procedures, and process also need to be set-up so that employees will be more confident and able to deals with ethical dilemmas appropriately.

There are several limitations to the study. First, the study only examined the direct relationship between individual, organizational, and situational factors and employee level of integrity. Future studies may examine the interaction between individual and situational factors or individual and organizational factors with integrity. Second, this study is focused on employees working in the automotive industry. Future studies may extend the generalization of the study to employees in other industries. Thirdly, the study obtained the data through questionnaire. As such future studies may obtain more insight by conducting interviews with the other automotive players concerning the factors that influence employee integrity.
References


