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The relationship between workplace ethics and employee attraction, loyalty, and financial performance-in FDI companies operating in Addis Ababa-Ethiopia

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Abstract

The study empirically analyzed the causality relationship between work ethics practices to employees, employee attraction, loyalty, and financial performance. Evidences indicate to the extent of ethical practices and companies' performance had been strongest and contributed to conclude on the causal relationship. Some 377 workers and 76 managers were asked from 48 sample FDI companies. The conceptual framework was prepared and hypothesized that companies with a strong ethical identity achieve greater degree of employee attraction and loyalty, which in turn, has a positive effect on the financial performance of FDI companies. In order to analysis this causality; the study has used Likert scaling questionnaires. The collected data was then analyzed through structural equation modeling (SEM). Specifically, the study used PCA, CFA and then path analysis. A model has been built and tested for fit; the model fit indices were chi-square to degree of freedom ration, RMSEA, SRMR, TLI and CFI. The SEM estimation result revealed the value of causal relationship between variables. As a result, the work ethics practice to employees was perceived as a significant and direct predictor of employee attraction and loyalty, but it will not serve to directly predict the companies' financial performance or profitability. Moreover, it revealed that, employee attraction and loyalty in turn has a significant positive effect on profitability of FDI companies; a great extent of employee attraction and loyalty significantly indicates to a high level of profitability. However, it is also concluded that the relationship between work place ethics and financial performance is mediated by employee attraction and loyalty.

Keywords: Work ethics, employee attraction and loyalty, financial performance, FDI companies, Structural equation modeling, Addis Ababa

1. Introduction

Ethics is a branch of social science; it comes from the Greek word ethos – means moral character or custom (Diener, 1997) [21]. Accordance with Olena (2005) [63], ethics is conceived as a way of life or general pattern, a set of rules of conduct or moral code. Ethics deals with moral principles and social values; helps us to classify what is bad and what is good. Likewise, Akrani (2011) [5] explains ethics used to separate right and wrong, moral and immoral, fair and unfair, and proper and improper doings.

The world has many different ethical systems mostly derived from different religions (Irwin, 2009) [46], culture, laws and Philosophical systems (Steiner and Steiner, 1980) [73]. Different systems can lead to different opinions about what is an ethical conduct and moral values governing actions and decisions in the work environment (Irwin, 2009) [46]. Thus, when being engaged in international business, the businessman should aware of the different business practices and ethical standpoints around the world (Lee, 2013) [55]. This is for the reason that, many of the ethical issues and dilemmas are rooted by political, law, economical, and cultural difference significantly from nation to nation (Irwin, 2009) [46]. All these conditions make the international business more complicated.

Ethics and morals: The term 'ethics' and 'morality' often used interchangeably and they are closely related; but it is essential to identify the different. Morality seems to be more general and perspective. Being immoral is completely different than being unethical. Unethical actions on some circumstance to be immoral, it has to be fundamental or permanent

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(Babu, 2007) [8]. Value Vs ethics: values are fundamental beliefs that make actions, traits, and objectives of anyone good or bad (Babu, 2007) [8]. They are the principles or standards that we use to define something. It considers the word "evaluate". When we evaluate something we compare it to a standard. Typical values include honesty, integrity, compassion, courage, honor, responsibility, patriotism, respect and fairness (Navran, 2010) [60]. Ethics Vs legal: Laws are more limited; legal standards are negative and forbid to harm peoples rather than require help them (Gohsman, 2008) [34]. Legal means recognized or made effective by a court of law. While ethics has much to do with the inner self since they are moral principles of an individual; unethical acts can be judged or decided by the man's own conscience (Kaushik, 2011) [49].

Work place ethics is a code of conduct that guide to the workers' ethical behavior and influence the development of ethical culture within the work place (Ferrell *et al.*, 2012 [27]). It can also be defined as a standard by which a worker's activity may be judge "right" or "wrong" since the worker who were treated ethically will more likely behave ethically (Fernando, 2009) [26]. When a company is more dedicated to taking care of its workers, the more likely it is that the workers will take care of the organization (Ferrell *et al.*, 2012) [27]. The company' low security to properly practicing ethical standards can have the contradictory effect, leading to staff turnover and the loss of skilled and valued workers (Mitchell, 2009) [58].

The company performance indicators can be classified in to two categories-nonfinancial and financial. Financial performances are indicated based on the output of income statements; while, non-financial are based on other measures used to assess the activities seen as important to the achievement of the financial performance objectives (Chen *et al.*, 2009; Chow and Van der stede, 2006) [19]. Financial indicators don't measure the complete health of a business (Hanks, 2013) [38]; while non-financial performance can describe the company's internal potential and future perspectives (Kotane and Kuzmina-Merlino, 2011) [53]. Employee loyalty is one of a parameter to measure the non-financial performance of a company (Heskett *et al.*, 2008; Frost, 2010) [42, 32]. Employee Loyalty is the extent to which the workers experience good faithful, having feelings of bonding, inclusion, care, responsibility and devotion towards their company (Mitchell, 2009) [58]; or may be defined as the willingness of workers to scarify for the organizational success (Chow and Van derstede, 2006) [19].

1.1 Objective of the study

The purpose of this study was to analyze the causal relationship between work place ethics and the companies' performance.

In order to address this objective; the companies' performances were categorized as nonfinancial and financial performance. And then, it needs to evaluate the type and the extent of strength of the causal relations between ethical practices, nonfinancial, and financial performance. Furthermore, it seeks to appraise the extent to which FDI companies should employ work ethics as a strategy to development.

2. Literature study

2.1 Ethics, morals and values

Ethics and morals-The term 'ethics' and 'morality' often used interchangeably and they are and perspective. The

concept about tastes, manner, and customs may be outlined as ethical beliefs, but they are not always the part of morality. Being immoral is completely different than being unethical. Unethical actions on some circumstance to be immoral, it has to be fundamental or permanent (Babu, 2007) [8]. If a society is dominated by a single religious or single culture, ethics and moral may be defined as the same thing (Navran, 2010) [60].

Values- are fundamental beliefs that make actions, traits, and objectives of anyone good or bad (Babu, 2007) [8]. They are the principles or standards that we use to define something. It considers the word "evaluate". When we evaluate something we compare it to a standard. Typical values include honesty, integrity, compassion, courage, honour, responsibility, patriotism, respect and fairness (Navran, 2010) [60].

2.2 Ethics Vs legal

In order to clearly understand the difference between illegal and unethical act; first, we have to consider legal and ethical limits. Laws are more limited, legal standards are negative and forbid to harm peoples rather than require help them (Gohsman, 2008) [34].

Another different is that legal means recognized or made effective by a court of law. Ethics has much to do with the inner self since they are moral principles of an individual. The decision making factor for an illegal act is the law agent; whereas, unethical acts can be judged or decided by the man's own conscience (Kaushik, 2011) [49]. Ethics is right for right's sake, whereas the low is a set of minimum requirements that society will operate; thus, unethical act can be legal and also illegal acts can be ethical (Pivar and Harlan, 1995) [64]. The summary of their difference is that Illegal is an act against the law while unethical is against morality. Illegal acts are easily detectable; however, unethical behaviors are difficult to detect easily. International laws may be similar for all, but ethics can vary across different cultures and regions (Kaushik, 2011) [49].

2.3 Ethical dilemma

Defining an ethical dilemma is the first step in making critical marketing decisions that can determine the company's success and make conscience clear (Flamand, 2011) [29]. According to Jakhotiya (2003) [47] definition, ethical dilemma is a situation in which an ethical individual or organization being forced to accept an unethical or semi ethical solutions to a problem in the large interest of organization, employee, and society. An ethical dilemma occurs when there are at least two possible choices and each option is problematic (Fletcher and Holt, 1995) [30]. It refers to situations in which a person face lots of choices and no clear cut right answer; each option may have major negative consequences. Thus, it is also known as ethical paradox (Flamand, 2011) [29].

A situation to be viewed as an ethical dilemma, it should satisfy three prerequisites. The first prerequisite is that an individual, called the "agent," must have a responsibility to make a critical decision that is intends to be best. The second prerequisite for ethical dilemma is that the different options should be there from which an individual, responsible to making decision, chooses. A person must want to do what is right. Third, in an ethical dilemma, each option should be problematic. In other words, there is no perfect solution (Allen, 2012) [6].

2.4 Work place ethics

Work place ethics is a code of conduct that guide to the workers' ethical behavior and influence the development of ethical culture within the work place (Ferrell *et al.* 2012^[27]). It can also be defined as a standard by which a worker's activity may be judge "right" or "wrong" (Fernando, 2009)^[26]. The work ethics may be however varying across cultures, legal, political and social differences (Toyne and Nigh, 1997)^[78]. Thus, different systems can lead to different opinions about what is an ethical conduct and moral values governing actions and decisions in the work environment (Irwin, 2009)^[46]. As a result, when being engaged in international business, the businessman should aware of the different business practices and ethical standpoints around the world (Lee, 2013).^[55] A company cannot nurture, develop and practice an ethical behavior unless it has achieved adequate financial performance in terms of profits. (Ferrell *et al.*, 2012)^[27]. In the present time, the failure to good business ethics practices can result in a failure to maximize shareholders' wealth (Francis and Mishra, 2009) Ethical practices for employees cover a diverse background of practices; some of ethics policies used to guide employee ethical practices are: Justice Practices, Integrity Practices, Confidentiality and Privacy Practices and Self-Control Practices (Heskett *et al.*, 2008)^[42].

2.5 Employee attraction and loyalty

Business ethics strengthen the workers' commitment, motivation, satisfaction, and loyalty to an organization (Mitchell, 2009)^[58]. It increases ability to attract and retain skilled workers (Henn, 2009)^[40]. workers in ethical companies spend a considerable numbers of working hour at work and the company can easily build goodwill and good perception by workers, which in turn, leads to high performance; enhancing outcomes within the organization (Ferrell *et al.*, 2012)^[27]. Loyal employees represent a cost savings over recruiting and training new hires, and loyal employees can be incredible assets to a growing company. Furthermore, there is a direct relationship between employee loyalty and a company's growth and profitability (Green, 2007)^[36]. Employee loyalty is a behavior that reflects allegiance with the companies in the course of action, interests and advocacy (Bettencourt *et al.*, 2001)^[13]. It is a commitment and emotional attitude to the companies developed as a result of increased satisfaction. Employee loyalty develops into a generalized emotional attitude towards the organization (Wan, 2005)^[80]. Employee loyalty can be measured by employee satisfaction, deserve to loyalty, likelihood to continue working at organization and likelihood to provide referral for organization (Wan, 2005)^[80], the employees' motivation, effectiveness and efficiency (Backhaus *et al.*, 2002). Employee loyalty can be described as one of a success factor in business may comprise efficiency, productivity, employee morale, less turn over and absenteeism (Abdel-Maksoud *et al.*, 2005)^[2]. A Company with loyal employees has a significant competitive advantage and a higher rate of survival than the companies with less loyal employees (Aityan and Gupta, 2012)^[3].

2.6 Financial performance

The financial performance is widely evaluated through Ratio analysis such as; Profitability ratios, liquidity ratios, management efficiency ratios, solvency ratios, and

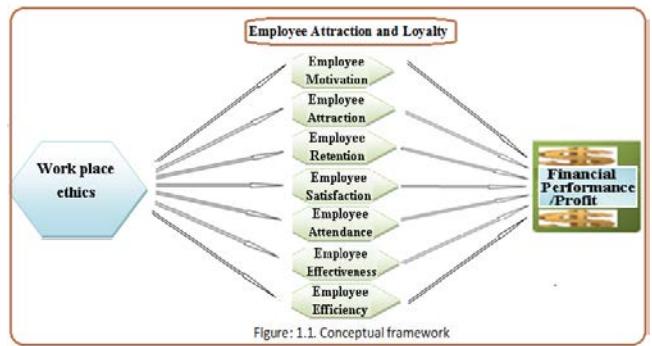
investment ratios and also using percentage analysis and cash flows analysis (Ho, 2010)^[43]. The financial analysis of a company can be done based on the information from income statements such as profit, revenue and cost (Chen *et al*, 2009; Chow and Van der stede, 2006)^[18, 19]. Financial indicators have been the main scorecard of success for hundreds of years, but by themselves they don't measure the complete health of a business (Hanks, 2013)^[38]. Traditional methods for evaluation of business activity are based on the calculations of financial performance indicators and their evaluation, but they do not identify all factors influencing company development (Kotane and Kuzmina-Merlino, 2011)^[53]. Thus, a financial aspect is incomplete evaluation of company performance as the internal; while non-financial performance can describe the company's internal potential and future perspectives (Kotane and Kuzmina-Merlino, 2011)^[53].

3. Conceptual framework and hypothesis

The conceptual framework provides a basis to understand the effects and causal relation of different variables and allows the development of hypotheses. The theoretical perspective of work place ethics, employee attraction and loyalty and the companies' profitability are the stand point to the development of this conceptual framework

The conceptual framework (Figure: 1.1) shows the relationship between the work place ethics practices and the indicators of employee attraction and loyalty. Evidence from literatures study suggests that there are several indicators of the employee attraction and loyalty; this may include employee motivation, new employee attraction, employees' retention, employee satisfaction, employee attending / attention, employee efficiency, and employee effectiveness. Although many different measures of financial performance could have been used, the study identified the three items such as; profit, revenue and cost, because they better capture the expected future impact of ethics on performance; and they are analysed by using structural equation modelling.

3.1 Conceptual framework: Causal relationship between Work Place Ethics and Companies' performances



3.2 Hypothesis

The hypotheses of this study were based on the proposition that a great extent of workplace ethical practices will have high and direct impact on nonfinancial performance and indirectly on financial performance. The other proposition is that better financial performance is directly influenced by nonfinancial performance. The followings are the tentative statement of the study.

1. **H1:** There is no a significant positive relation between CBE practices perceived by employees and employees attraction and loyalty.
2. **H2:** There is no a significant positive relationship between the employee attraction and loyalty and financial performance.
3. **H3:** CBE practices perceived by employees has no a significant positive effect on FDI companies' financial performance

4. Data and Methodology

The main research question of the study is "What is the causal relationship between work ethics practices perceived by employees and the companies' performance" in case of FDI companies operating in Addis Ababa. In order to answer this research question, the study has used a mix of qualitative and quantitative methodology. The study has been organized in to three sections. The first section analyzed the work place ethical practices. Second section; examine the companies' performance (both 'Employee attraction and loyalty' and 'financial profitability'). Finally, the study analyzed the causal relationship between workplace ethical practices and the companies' performance.

4.1 Data, Sample Size, and data collections

In the process of conducting research, at least five major activities are included: 1. matching the research design with research questions, 2. Sample determination, 3. selecting the research inventories, 4. Selecting methods of data collection, and 5. Selecting methods of data analysis (Heppner *et al.* 2007) [41]. In the previous section, the activities with related to matching the research design with research questions was discussed. The next section will discuss the rest major activities of the study

Before sample design, the data sources and data type required to the study should be determined (Kothari, 2004) [54]. To properly answer a research question, primary data was the main sources of the study. According to the study of Nicholson and Bennett (2008) [61], 84% of business ethics dissertations included a primary data as major source. Likewise, 51% of business ethics dissertations employed Primary data only (Nicholson and Bennett, 2008) [61].

The study was conducted in Addis Ababa; it is a capital City of the Federal Democratic Republic of Ethiopia. The total numbers of foreign investment operating in Addis Ababa now reached at 1047; however, merely 156 companies were at operation stage, of which 105 companies were service and trade and 51 were manufacturing companies (AAIA Report, 2014) [1]. Companies at operation stage were the focusing area of the study. The sample size of the study was 48 FDI companies; of which 19 from manufacturing and 29 from service and trade types of business proportionally. This means 31% of the population. The sample size of 30% seemed to be ideal (Range Management Society of India, 2000) [66]. In order to select sample FDI companies, the study has administered a multistage sampling (proportional stratified sampling and then systematic random sampling) Sample size is one of the most essential issues in using SEM since the sample size affects the ability of the model to be estimated correctly and to recognize specification error (Khine, 2013) [51]; sample size plays a significant role in the estimation and interpretation of SEM results (Hair *et al.* 2006) [37]. Thus, almost all scholars have consensus on that larger samples provide suitable and correct parameter

estimates, however, there is no agreement as to what constitutes an adequately large sample size (Mueller, 2012) [59]. As the sample size increases, the sensitivity to detect differences among the data will be increased (Khine, 2013) [51]. According to the recommendation of Anderson and Gerbing (1982) [7], the minimum sample size, in SEM, should be 150. Other authors recommended 200 as a minimum sample size (Hair *et al.* 2006) [37]; moreover, according to Dwivedi *et al.* (2009) [23], the median sample size for all SEM application was 212.

The respondents of the study were employees and managers of FDI companies. Based on the most commonly used formula of Cochran's (1977), the study has taken 377 sample employees respondents and administered convenient sampling to select these required numbers of respondents from workers groups, and purposive sampling to select 76 managers from FDI companies. The data was collected by using questionnaire. Likert scale has been the most widely used technique

4.2 Methods of data analysis

The analysis was done through SEM; specifically, by using principal component analysis (PCA), confirmatory factor analysis (CFA), model fit test, inclusive path analysis and effect analysis, and then the data was tested through Z-test. STATA12 software has been important statistical software to conduct SEM analysis. According to a rule of thumb, a rotated factor loading would need to be at least 0.32, (Tabachnick & Fidell, 996) [77]. However, the choice of cut-off point may depend on the complexity of variables that are being handled. Thus, this study used 0.5 as a cut- off point. Principal component analysis was performed through oblique (oblimin with Kaiser Normality) rotation. Moreover, eigenvalue ≥ 1 was taken as a cut-off value to extract the number of component factors. A factor loading ≥ 0.5 was viewed as significant cut-off value and any variables that have significantly low value of factor loading (below 0.5) were dropped before conducting CFA. Furthermore, the correlation matrix was prepared. A variable to be considered as an indicator of a given factor, its correlation value with other indicators should be greater than or equals to 0.5 (Weinberg and Abramowitz, 2002) [82]. As a rule of thumb, a correlation coefficient equal or exceed 0.5 is considered as a strong correlation; but exceed 0.8 can be assumed as very strong correlation. In this study, when the correlation value is ≥ 0.8 , it is subject for dropping either of the two (Field, 2005; Robin, 2007) [28, 68]; because, it would be assumed that the two items measure the same thing (Weinberg and Abramowitz, 2002) [82].

This study, furthermore, used Cronbach's alpha as an often used technique to measures internal consistency or reliability of a group of construct indicators. It is considered to be a measure of scale reliability; ranges between 0 and 1. High value shows high reliability (UCLA, 2016) [79]. In this study, 0.7 was applied as a threshold value

CFA is a means to confirm a hypothesized model when a researcher has knowledge about the indicators variables and factors (Bruck, 2009) [16]. Accordance with Wang and colleagues (2015), following to EFA, CFA to validate the initial factor structure was conducted. Factor loading ≥ 0.5 was also taken as significant cut-off value for CFA. Beside, through CFA model fit indices, conclusion was made about whether the data fit well with the factor structure. In this study, moreover, the model fit indices that were used for measuring the fitness of an identified indicators were CFI

(Comparative fit index: over 0.9), TLI (Tucker-Lewis index: over 0.9), RMSEA (Root mean squared error of approximation: below 0.05), and SRMR (Standardized root mean squared residual: below 0.05). And in case of more than three indicators, it has used the ratio of chi-square to degree of freedom as a measurement tool of model fit. Finally, following to EFA and CFA, path analysis has been undertaken with incorporating all variables in an inclusive single model.

5. Introduction to Structural Equation Modeling (SEM)

Structural Equation Modeling (SEM) has roots in the beginning of this century (Hoyle, 1995) [45]. The study of latent variables and analysis their relation involving structural equation models has provided researchers considerable ways either to develop new theories or test or modify the existing one (Anderson and Gerbing, 1982) [7]. It is a comprehensive statistical approach to test hypotheses (Hoyle, 1995) [45]. SEM comprises both factor analysis and multiple regression analysis. (Hair *et al.*, 2006) [37].

Structural equation modeling (SEM) utilizes various types of models to depict relationships among variables, with the some basic goal of providing a quantitative test of a theoretical model hypothesized by the researcher (Schumacker and Lomax, 2012) [70]. It represents the hybrid of two separate statistical traditions. The first is factor analysis developed in the disciplines of psychology. The second is simultaneous equation modeling developed mainly in econometrics. Structural Equation Modeling (SEM) originated from factor analysis (Wang and Wang, 2012) and path analysis (Hox, 2002) [44]. Even presently, it can be viewed as a combination of measurement (factor analysis) and structure (path analysis) (Schumacker and Lomax, 2012, Hox, 2002, Wang and Wang, 2012, Hoyle, 1995) [70, 44, 81, 45].

Factor analysis is a data reduction tool which removes redundancy or duplication (Mayer, 2006) [57]. It assumes that the covariance between a set of observed variables can be reduced (Swanson and Holton III, 2005) [75]. Principal component factor analysis (PCA) is the most widely used factor analysis through this factor analysis, factors are formed that are relatively independent of one another (Mayer, 2006) [57]. SEM is more often considered to be confirmatory factor analysis rather than exploratory approach (Wang and Wang, 2012, Swanson and Holton III, 2005) [75, 81].

Path analysis is the process of constructing and solving the path diagram it represents causal relationship among a set of measured variables (Swanson and Holton III, 2005) [75]. It mostly uses multiple regressions (Schumacker and Lomax, 2012) [70]. The path diagram indicates to the relationship of one latent variable with another (Hoyle, 1995, Hox, 2002) [45, 44]. When the factor analysis and path analysis are combined, the result is structural equation modeling (Hoyle, 1995) [45]. The major tasks of Structural equation modeling (SEM) follows a logical sequence of steps Bollen and long explain the five important stages of most applications of structural equation modeling: Model specification, Model Identification, Model estimation, Model Testing fit, and Model Re-specification (Kelloway, 1998) [50].

Moreover, SEM Consists of observed and latent variable (Schumacker and Lomax, 2012) [70]. One of the most essential issues to use SEM is to differentiate between observed and latent variables (Raykov, Marcoulides, 2006)

[67]. Latent variable are a central concept but abstract phenomena in SEM (Byrne, 2013) [17], which are of hidden or unobserved and theoretical (Bowen and Guo, 2012) [15]. Latent variables are measured indirectly by their respective indicators (observed variables) (Hoyle, 1995; Kelloway, 1998) [45, 50]. Endogenous latent variables are synonymous with dependant variable influenced by exogenous variable. Exogenous latent variables are synonymous with independent variables (Byrne, 2013) [17].

In this study, work ethics practices to employees and employee attraction and loyalty are exogenous latent variables, but financial performance is endogenous latent variable. While, observed variables can be directly measured and are indicators of a latent variable (Wang and Wang, 2012) [81]. An observed variable used as an indirect measure of a construct is referred to as indicator (Kline, 2011). Structural equation models are often applied to survey data (Hoyle, 1995) [45]. Thus, the observed variables can be categorical, ordinary, and continuous, but all latent variables in SEM are continuous (Kline, 2011). The observed items that measure latent variables may collectively be called a scale, subscale, instrument, measure, questionnaire, etc. (Bowen and Guo, 2012) [15]. Moreover, in this study, the companies' size, business sectors and the countries of origin are assumed to be control variables.

6. Data analysis: principal component analysis (PCA) and confirmatory factor analysis (CFA)

6.1. Introduction

-Eigenvalue- A value in a factor analysis/correlation matrix which indicates how many factors can be extracted in the total factor analysis (Gorsuch, 2014) [35]. This is obtained by summing the squares of the factor loadings. It is important to extract the numbers of components or relevant factors. Eigenvalue greater than 1.00 is mostly considered as significantly relevant; High value indicates that the given observed variables found to be strong indicators to the factor (Wherry, 2014) [83].

-Factor loadings-factor loadings represent how much a factor can be expressed by a variable or how much a factor explains a variable in factor analysis (Gorsuch, 2014) [35], but also indicates the correlation between the variables and the factor (UCLA Institute for Digital Research and Education, 2016) [79]. The loadings closer to -1 or 1 indicate that an observed variable strongly can express a given factor, Loadings close to zero indicate that the factor weakly affect the variable (Gorsuch, 2014) [35]. Thus, the variable with largest factor loading found to be considered as a determinant item of a given factor (Yong and Pearce, 2013) [84].

-Uniqueness and error variance- the proportion of an observed variable's variance that is not described by the latent variable. it is calculated as equal to 1 – communality (Wherry, 2014) [83]. It is the proportion of the common variance of an observed variable not correlated with the factors. (Gorsuch, 2014) [35]. Error variance- a type of unique variance which refers to as the unreliability of the variance (Yong and Pearce, 2013) [84].

-R-squared (R^2)-in SEM, it is a calculated value that indicates the fraction of variance explained by each observed variable. It is the product of loading square between an indicator and its prediction. The overall R-square is called the coefficient of determination (UCLA Institute for Digital Research and Education, 2016) [79].

6.2. Work place ethics practices

The following table details the items used to measure the workplace ethics practices

Table 1.1: Work place ethics practices: Scale items

| Work place ethics practices | | Author |
|-----------------------------|---|--|
| Items | | The items are supported by: |
| 1 | To what extent does the company practice equal and equity compensation to employees? | OECD, 2011; CRT, 2009; Bench Marks Foundation, 2013; SVN, 1999; Canadian Business for Social Responsibility, 2002; U.S. Department of Commerce, 1995 |
| 2 | To what extent does the company provide equal opportunity and treatment to the employees? | |
| 3 | To what extent does the company recognize & resolve the workers' Personal and Social Problems | |
| 4 | To what extent does the company respect the workers' interest, dignity, norm, value and privacy? | |
| 5 | To what extent does the company access/communicate adequate and truthful Information to workers? | |
| 6 | To what extent has the issue of Freedom of Work (to Join, Leave, and Association) been practicing in the company? | |
| 7 | To what extent is the company committed to Create Conducive (Healthy, Safety) Working Environment | |

Source: Authors' construct

Table 1.2: Indicators to work place ethics practices - measurement result- Rotated factor loadings (pattern matrix) and unique variances

| | Observed Variable/Items | Factor1 | Factor2 | Uniqueness |
|---|--|---------|---------|------------|
| 1 | Provide Equal and Equity Compensation | | 0.9098 | 0.2044 |
| 2 | Recognize & Resolve the Workers' Personal & Social Problems | 0.8095 | | 0.3635 |
| 3 | Provide Equal opportunity and treatment | | 0.8912 | 0.1185 |
| 4 | Respect the Workers' Values, Norms, Interest, Dignity &Privacy | 0.8604 | | 0.2657 |
| 5 | Access Adequate and Truthful Information | | 0.9580 | 0.0856 |
| 6 | Freedom of Work as to Join, Leave, and Association | 0.8429 | | 0.2705 |
| 7 | Create Conducive (Healthy, Safety) Working Environment | 0.8672 | | 0.2243 |

Source: Authors' construct

In this study, the method of factor extraction was principal component analysis with oblique rotation; As a result, two components have been extracted. There were seven items, of which the four indicators are more relevant to factor 1 than factor 2 since they have the value of factor loadings which is greater than the cutoff Point. Moreover, the blanks space represent a factor loading <0.3 . As far as concerning to factor one, all the factor loadings of relevant indicators were statistically significance and moderately correlated. The

correlation matrix has been prepared for data reduction purpose; as a result, it was noted that the associations between indicator variables, that are relevant to factor one, were statistically significance. However, they were not that much very strong. It implies that the items are relevant to measure the different aspects of factor one, rather than to measure the same things. Therefore, it can be concluded that the work place ethics practices can be properly measured through these four identified items.

Table 1.3: Adjusted indicators to workplace ethics practices

| | Observed Variable | Standard Loadings | Error Varian | Z-value | R ² |
|---|--|-------------------|--------------|---------|----------------|
| 1 | Recognize & Resolve the Workers' Personal & Social Problems | 0.69 | 0.52 | 22.14 | 0.476 |
| 2 | Respect the Workers' Values, Norms, Interest, Dignity &Privacy | 0.81 | 0.35 | 34.65 | 0.656 |
| 3 | Create Conducive (Healthy, Safety) Working Environment | 0.86 | 0.27 | 42.07 | 0.740 |
| 4 | Freedom of Work as to Join, Leave, and Association | 0.81 | 0.35 | 34.64 | 0.656 |

Source: Authors' construct

Again, following to PCA, CFA was undertaken. CFA tests the uni-dimensionality of a scale previously constructed by exploratory factor analysis and then validate the construct. After the construct validation process completed, the identified observed variables being hypothesized to SEM (Schumacker and Lomax, 2012) [70]. Table 1.3, shows the summary of selected indicator variables and the result of Confirmatory factor analysis (CFA). The values of the factor loadings exceeded the cut-off point. The model fit statistics ($\chi^2/df = 0.006$, CFI=1.00, TLI=1.008, SRMR=0.001, RMSEA=0.000) for these indicators / items

were indicating that the overall fitness of the hypothesized model was strong. Moreover, the value of Cronbach's alpha reliability test is 0.8684. It signifies that the groups of relevant items that are incorporated in the hypothesized model and used to assess a latent variable are more consistence or highly reliable since its value is exceeding 0.70.

6.3. Employee Attraction and Loyalty

The following table details the items used to measure the employees attraction and loyalty

Table 1.4: Employee attraction and loyalty -Scale items

| CBE Employees | | Author |
|---------------|---|---|
| Items | | Items have been adapted from: |
| 1 | To what extent does the company finds it easy to attract new potential workers? | Emery, 2011; Backhaus et al, 2002); Abdel-maksoud et alal 2005; Wan, 2005; Lodder, 2009; Frost,2010 |
| 2 | To what extent do the workers want to retain working in this company? | |
| 3 | To what extent have the workers been motivated in this company? | |
| 4 | To what extent have the workers been satisfied in this company? | |

| | | |
|---|---|--|
| 5 | To what extent does the workers attend the work activity | |
| 6 | To what extent are the workers committed to realize efficiency in their work | |
| 7 | To what extent are the workers committed to realize effectiveness in their work | |

Source: Authors' construct

Table 1.5: Indicators to employee attraction and loyalty- measurement result- Rotated factor loadings (pattern matrix) and unique variances

| | Observed Variable | Factor1 | Factor2 | Uniqueness |
|---|--------------------------------|---------|---------|------------|
| 1 | Employee motivation | 0.8891 | | 0.2028 |
| 2 | New employees attraction | 0.4292 | | 0.7992 |
| 3 | Employees' Retention | 0.7444 | | 0.44482 |
| 4 | Employee satisfaction | 0.9058 | | 0.1720 |
| 5 | Employee attending / attention | 0.8213 | | 0.3321 |
| 6 | Employee efficiency | | 0.9378 | 0.1235 |
| 7 | Employee effectiveness | | 0.9344 | 0.1221 |

Source: Authors' construct

EFA was the first step in construct validation process. It extracted two factors and identified five items significantly clustered on factor 1 which had 0.41% proportion. But the study has selected four indicators relevant to factor1 those exceeded 0.5 cut-off value as a measuring variables to a latent variable (employee attraction and loyalty). It seems appropriate to note that the variable "New employees' attraction" is loaded below the cut-off point 0.5. Besides, examination of the variables' correlation matrix was prepared, and revealed that the two variables (Employee motivation and employee satisfaction) were correlated

strongly ($r=0.9082$) and would be viewed that these two indicators serve to measure the same thing (Weinberg and Abramowitz, 2002)^[82]. Accordance with Field's (2005)^[28], either of the two can properly measured a given latent variable, thus one of the two should be dropped. Moreover, the correlation coefficient between the rest indicators were significance and satisfactory; which were between 0.5 and 0.8. Consequently, the study has dropped items that are listed in number 2, 4, 6, and 7, and used items stated in number 1, 3, and 5 as the right measuring variables of employee attraction and loyalty.

Table1.6: Adjusted indicators to the employee attraction and loyalty

| | Observed Variable | Standardized Loadings | Error Variance | Z-value | R ² |
|---|-----------------------|-----------------------|----------------|---------|----------------|
| 1 | Employee motivation | 0.75 | 0.44 | 21.21 | 0.563 |
| 2 | Employees' Retention | 0.69 | 0.52 | 18.96 | 0.477 |
| 3 | Employees' attendance | 0.80 | 0.36 | 23.58 | 0.640 |

Source: Authors' construct

Following to principal component analysis, CFA was done. As shown in the table 1.6, all factor loadings score from CFA found to be above the cut-off value; thus, the model fit test was preceded. The value from the model fit indices analysis indicated a good model fit and the model is assumed to be valid for further SEM analysis. And these three variables are viewed as the right indicators. The statistical values of model fit indices are: RMSEA=0.00, SRMR=0.00, CFI=1.00 and TLI=1.00. The value of chi-square is null since there is no degree of freedom.

Furthermore, the value of Cronbach's alpha test indicates to 0.7892; it is, sometimes may be viewed that the items assumed to be relevant to model are more reliable or consistence since its value is above the threshold value ($\beta=0.70$)

6.4. Financial performance

The following table details the items used to measure the financial performance of FDI companies

Table 1.7: Financial performance Scale Items

| Managers/ experts/ | | Author |
|--------------------|---|--|
| Items | | Items have been adapted from: |
| 1 | How did the revenue of the company in 2014 relate to the previous year? | Shah, 2009; Douglas and Judge (1998), and Stanwick and Stanwick (1998) |
| 2 | How did the revenue of the company in 2014 relate to its expectations? | |
| 3 | How did the net profit of the company in 2014 relate to the previous year? | |
| 4 | How did the net profit of the company in 2014 relate to its expectations? | |
| 5 | How did the business cost of the company in 2014 relate to the previous year? | |
| 6 | How did the business cost of the company in 2014 relate to its expectations? | |

Source: Authors' construct

Table 1.8: Indicators to the companies' financial performance- measurement result- Rotated factor loadings (pattern matrix) and unique variances

| | Observed Variable | Factor1 | Uniqueness |
|---|----------------------------------|---------|------------|
| 1 | Revenue as financial performance | 0.9296 | 0.1359 |
| 2 | Profit as financial performance | 0.9456 | 0.1058 |
| 3 | Cost as a financial performance | 0.9273 | 0.1401 |

Source: Authors' construct

In determining the construct, the six questions for the three indicator variables (revenue, profits and costs) were asked with the intent to evaluate the financial performance of FDI companies. Two questions were asked for each indicator and the data concerning to "costs as a financial performance" were rearranged to make resemblance with the others and ready for analysis. Then, the principal component analysis utilizing oblique-oblimin (Kaiser

Normality) rotation extracted a single component factor with more than 0.87% proportion. As shown in table 1.8, all items loaded greater than 0.92. Additionally, the correlation coefficient was tested; as a result, all indicators such as “Profit as a financial performance”, “Cost minimization as a financial performance” and “Revenue as a financial performance” were very strongly correlated ($r \geq 0.85$). Thus, the items can be viewed as measuring the same thing (Weinberg and Abramowitz, 2002) [82]. There was sufficient evidence to apply the recommendation of Field’s (2005) [28] that one of them should be selected. Therefore, after EFA, as a final point, the study determined the items “Profit as a financial performance” as the only measuring variables of a financial performance of FDI companies and dropped the rest two items.

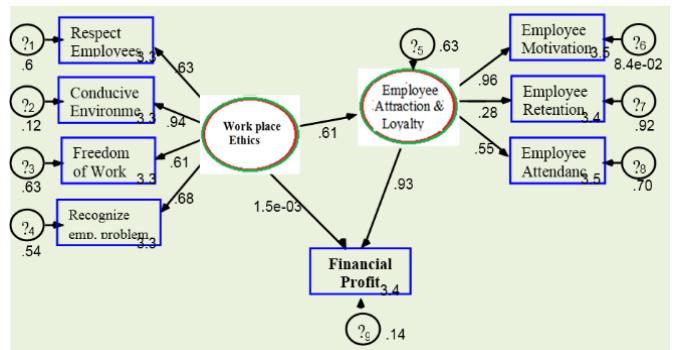
7. Path analysis

One of the roots of Structural equation modeling is path analysis, which was invented by the geneticist Sewall Wright (Hox, 2002) [44]. Path analysis is a multivariate analysis which is to estimate the strengths of the direct effect from one variable to another, the indirect effect variables through intervening variables and including total structural effect (Mueller, 2012) [59]. Structural equation models are often pictured by a graphical path diagram (Blanche et al., 2006) [14]. A path diagram is a suitable way to graphically demonstrate the structural relationship of variables (Hox, 2002, Mueller, 2012) [44, 59]. A path diagram holds boxes and circles, which are linked by arrows (Hox, 2002) [44]. Observed (or measured) variables are indicated by square or rectangle, and latent factors by a circle or ovals (Girishwar, 2010) [33]. The relationships between variables are demonstrated by lines; if two variables are not interlinked with a line which implies that no relationship between these hypothesized variables (Blanche et al., 2006) [14]. A line with one arrow point out a causal relationship; the variable at the tail of the arrow causing the variable at the end and a line with an arrow at both ends indicates reciprocal relationship (Hox, 2002) [44]. A Curved line between observed variables indicates correlation between the observed variables (Kamaruddin and Abeysekera, 2013) [48].

8. SEM-Model Building and Estimation

The purpose of this study was to analysis the interference of workplace ethics in the company performances through SEM. Thus, a SEM model has been built and tested for fit. When the model fitted and statistical support for the model has been obtained, the study interpreted the result of the estimation. In SEM, the focus of interpretation was the parameter estimates (Robins et al., 2007) [68]. The magnitude and the sign of estimates were from the standardized estimation of SEM. A structural model was evaluated on the basis of goodness of fit measure. The measurement results of a model fir are stated under each table; the model fit indices were chi-square to degree of freedom ration,

RMSEA, SRMR, TLI and CFI. A Model has been built and the output results are presented and interpreted in the next section.



Source: Authors' construct Via SEM -STATA12 Software

Fig 1.2: SEM- Workplace ethic to employee, Employee attraction and loyalty, and financial performance

The causal relationship in the above structural model in Figure 1.2 shows how workplace ethics practices perceived by employees is significantly and importantly related to both “employee attraction and loyalty” and “financial performance” as well as the relationship of employee attraction and loyalty and financial performance.

Likewise, the result of this model involved three key variables (one endogenous latent variable and one endogenous observed variable and one exogenous latent variable) that have been influenced by seven observed variables. The standardized factor loading from path analysis result indicates that the path coefficient between the workplace ethics practice and employee attraction and loyalty and between employee attraction and loyalty and financial performance was positive and significant. It was 0.61 and 0.93 respectively. However, the path coefficient between workplace ethics practice and financial performance was insignificant; which was 0.0015. It implies that the workplace ethics practice significantly perceived as an important direct predictor of the employee attraction and loyalty; likewise, employee attraction and loyalty in turn significantly predicts the financial performance of the companies. Whereas, workplace ethics practice cannot be viewed as a direct predictor of the company’s profit.

In line with literatures, they stated that good ethical practices improve the employees’ commitment and motivation (Mitchell, 2009; ETI, 2006) [58], Strengthen the loyalty to an organization (Mitchell, 2009) [58], increase ability to attract new recruits and retain employees (Henn, 2009) [40]. Moreover, a positive business practices decrease turnover and improve attendance (Ferrell. et al., 2012) [27] as well as lowering error rates and reduced costs (Henn, 2009) [40]. Ethical behavior of the company increases efficiency and effectiveness of Production which in turn increases the company profitability (ETI, 2006; Hempel and Porges, 2004) [25, 39].

Table 1.9: Structural Equation Results: Direct relationship

| Direct Relationships | Standardized Loadings | Error Variance | R ² | Z-value |
|---|-----------------------|----------------|----------------|---------|
| Work place ethics → Employee attraction and loyalty | 0.61 | 0.63 | 0.372 | 11.29 |
| Employee attraction and loyalty → financial profit | 0.93 | 0.14 | 0.865 | 17.01 |
| Work place ethics → financial profit (direct) | 0.0015 | | 0.000 | 0.02 |

Model Fit: Chi Square = 31.64 (df=18), RMSEA = 0.063, TLI = 0.97, SRMR = 0.047 and CFI = 0.98

Source: Authors' construct

The path coefficient, R-square value and respective Z-value are shown together. As can be seen in table 1.9, the model involved three key variables. The amount of variance in the financial profit accounted for by the work place ethics practices was almost zero; while the fraction of variances of employee attraction and loyalty by exogenous variable (work place ethics) was 0.372 and the fraction of variances of profit by exogenous variable (employee attraction and loyalty) was 0.865. Furthermore, concerning to Z-value, all relationships between variables were positive and greater than 1.96 except the third paired, which was 0.02.

The further analysis was also undertaken to determine the connection between workplace ethics and financial performance (FP). It was analyzed with a mediating variable. When the coefficient of direct path from workplace

ethics practice to financial performance reduced after including the mediator, it is interpreted as evidence of a mediation effect.

This study shows that a greater workplace ethics was positively related to high level of employee attraction and loyalty ($\beta=0.61$). In turn, employee attraction and loyalty had a significant positive influence to the companies' financial performance ($\beta=.93$). As a result, the mediating between workplace ethics and financial performance was strong and significant ($0.61 * 0.93 = 0.567$); which exceeds the value of direct path coefficient. Therefore, the study can conclude that the relationship between workplace ethics and financial performance is mediated by employee attraction and loyalty.

Table 1. 10: Structural Equation Results: Direct, indirect and total effects

| Direction effects | Effects | | | Z-value |
|--|---------|----------|--------|---------|
| | Direct | Indirect | total | |
| Workplace ethics → Employee attraction and loyalty | 0.750 | | 0.7501 | 6.25 |
| Employee attraction and loyalty → financial profit | 1 | | 1 | |
| work place ethics → financial profit (direct) | 0.0020 | 0.7501 | 0.7521 | 7.06 |
| <i>Model Fit: Chi Square = 31.64 (df=18), RMSEA = 0.063, TLI = 0.97, SRMR = 0.047 and CFI = 0.98</i> | | | | |

Source: Authors' construct

The table was developed to estimate and illustrate the impact of one variable on another. The table revealed the three types of effects such as Direct, indirect and total effects. However, the major focusing area of the study was the total effect. The total effect of workplace ethics practice on employee attraction and loyalty was 0.7501 with Z-value 6.25; While, the total impact of workplace ethics practice on profit was 0.7521 with the Z-value 7.06. This implies that the exogenous valuable (workplace ethics) has a significant effect on both employee attraction and loyalty and the companies' profit generation.

8.1 Direct, indirect and total effects

In SEM, decompositions typically provide direct, indirect and the total affects which considered paths from independent to dependant mediated by one or more additional variables.

-Direct effect- is called path which has arrowhead from a cause variable to an effect variable

Which is that influence unmediated by any other variable in the model (Lee, 2008) [56].

-Indirect effect- is when one or more mediating variables transmit some of the causal effects in to the dependant variables; their relationship is mediated by at least one intervening variable. Its value can be computed through subtracting the direct effects from the total effects (Gorsuch, 2014) [35].

-Total effect is the summation of direct and indirect effects of an independent variable on dependant variable (Wherry, 2014) [83]. The study presents the result from the effects documentation tables in which the total, direct and indirect effects within the models are summarized

Accordance with Baron and Kenny (1986) [10], in order to perform a mediating effect, four conditions should be fulfilled. First, the independent variable (Work place ethics practices) must predict the dependent variable (profit). Second, independent variable must affect the mediator variable (employee attraction and loyalty). Third, the mediator variable must affect the dependent variable.

Fourth, when the mediator is being controlled, the impact of independent variable on the dependent variable should be less

9. Hypothesis test result and summary of the finding

With path models, the study hypothesized causal relationship among latent variables and assumed that these latent variables and their indicator variables are perfect representation of the constructs. Employee stakeholder was used to represent the construct. And the focus was on the causal relationship between measured variables and latent variables and then analysis causal linkage between one latent with another latent variable.

H1: There is no a significant positive relation between work place ethical practices perceived by employees and employees attraction and loyalty.

A mild significant positive path coefficient was noted between work place ethical practices and employee attraction and loyalty ($\beta=0.61$). This may be explained by the verity that work place ethical had 37.2% of influence on employee attraction and loyalty with the Z-value equals to 11.29. It is significant to say that there was positive relation between work place ethical practices perceived by employees and employee attraction and loyalty. Along with this, the previous studies have concluded the same thing. For instance the studies conducted by Duska (2007) shows that greater business ethics behaviour creates the greater the employee loyalty. Pierce and Snyder (2013) also found that unethical practices can increase attrition among ethical employees.

H2: There is no a significant positive relationship between the employee attraction and loyalty and financial performance.

Likely, there was also high path coefficient between employee attraction and loyalty and financial performance ($\beta=0.93$). It was significant (Z-value =17.01). Furthermore, the extent to which the financial performance varies for by

the employee attraction and loyalty was 86.5%. ($R^2=0.865$); it was also significant. In the other hand, the previous study explained that there is a direct relationship between employee loyalty and a company's growth and profitability (Green, 2007, Sweeney, 2009) [36, 76]. Accordingly, Heskett *et al.* (2008) [42] argues that internal quality drives employee satisfaction and loyalty, which in turn drives productivity and profitability

H3: work place ethical practices perceived by employees has

No a significant positive effect on FDI companies' financial performance

This was also noted in the study that the direct relation between work place ethical practices and financial performance was weak ($\beta=0.0015$); whereas, with mediating by the employee attraction and loyalty, their mediating relation was strong and significant ($0.61*0.93=0.567$). Therefore, it implies that the relationship between workplace ethics and financial performance is mediated by employee attraction and loyalty. Moreover, the total effect of workplace ethics on financial performance indicates to 0.7521 with the Z-value 7.06; it is significant. As a result, the study can concludes that work place ethical practice perceived by the employee has a significant positive effect on the FDI companies' financial performance.

Besides, in line with previous studies, Sweeney (2009) [76], and Saeed and colleagues (2013) [69] found similar result. The others said that an ethical guidance and values have positive impact on employees' performance; a good ethical practices improve the employees' commitment, motivation and loyalty (Mitchell, 2009, Ferrell. *et al.*, 2012) [58, 27].

Table: 1.11: Summary of Hypothesis Testing

| S. No | Hypothesis | Test result |
|-------|--|-------------|
| 1 | H1: There is no a significant positive relation between work place ethics practices perceived by employees and employees attraction and loyalty. | Reject |
| 2 | H2: There is no a significant positive relationship between employee attraction and loyalty and financial performance. | Reject |
| 3 | H3: work place ethical practices perceived by employees has no a significant positive effect on FDI companies' financial performance | Reject |

Source: Authors' construct

10. Conclusion

The goal of this paper was to analyze the causal relationship of work place ethics and companies' performance in FDI companies operating in Addis Ababa Ethiopia. In order to analysis these relations, the paper has reviewed and used the theory of Structural Equation Modeling (SEM), which mainly organized from factor analysis (Wang and Wang, 2012) [81] and path analysis (Hox, 2002) [44]. It has been used a multiple regression technique (Schumacker and Lomax, 2012) [70]. Before going to SEM, the study performed PCA to extract factors and to identify the indicator variables. STATA12 representing one of alternatively used computer package for SEM was used in this study to test the direct causal relationship between workplace ethical practice and financial Performance and also to test the relationship between these two variables via moderator variable (employee attraction and loyalty).

This study has built a model and estimate values to analysis the causal relationship of different variables. The results of the analysis have shown that the employee attraction and loyalty is positively and significantly affected by a high degree of workplace ethical practice perceived by the employee. The employee attraction and loyalty in turn has a positive but a significant relation with the companies' profitability. As far as concerning to a direct path, there is no a significant direct relation between work place ethics and profitability. However, their relation is significantly mediated by employee attraction and loyalty. Furthermore, the workplace ethical practices perceived by employees have a significant total effect on profitability.

11. Reference

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Appendix

Appendix 1: Correlation matrix

| | emprob | emresp | emfred | emenava | emmoti | emretn | emsats | emattn | finrevn | finprof | fincost |
|---------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| emprob | 1.0000 | | | | | | | | | | |
| emresp | 0.5418 | 1.0000 | | | | | | | | | |
| emfred | 0.5747 | 0.6576 | 1.0000 | | | | | | | | |
| emenava | 0.6303 | 0.5873 | 0.5646 | 1.0000 | | | | | | | |
| emmoti | 0.4064 | 0.3021 | 0.2595 | 0.5714 | 1.0000 | | | | | | |
| emretn | 0.1485 | 0.1597 | 0.0700 | 0.1556 | 0.6513 | 1.0000 | | | | | |
| emsats | 0.3716 | 0.2778 | 0.2455 | 0.5600 | 0.9082 | 0.7555 | 1.0000 | | | | |
| emattn | 0.1887 | 0.0990 | 0.1641 | 0.2993 | 0.5219 | 0.6350 | 0.5026 | 1.0000 | | | |
| finrevn | 0.2966 | 0.2078 | 0.2987 | 0.4390 | 0.7056 | 0.3841 | 0.8270 | 0.4255 | 1.0000 | | |
| finprof | 0.3716 | 0.2778 | 0.2455 | 0.5600 | 0.4893 | 0.2555 | 0.7900 | 0.5026 | 0.8570 | 1.0000 | |
| fincost | 0.2827 | 0.1665 | 0.1996 | 0.4363 | 0.6945 | 0.2117 | 0.6212 | 0.3389 | 0.8789 | 0.8612 | 1.0000 |