

# ETHICAL SYSTEMS' DYNAMICS IN FAMILY BUSINESS

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## Abstract

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Building an ethical culture is challenging and it is a basic requirement for companies to embed transparency in their systems, creating a positive image and serving the internal and external communities. Twelve family-owned businesses participated in qualitative research. Interviews were conducted with employees of these businesses to explore the moral dynamics in their business. The paper significantly adds knowledge to the literature by exploring the role of ethics in particular contexts. It explores how these companies build the ethical culture, identifying the ethical culture sustainability triggers, challenges, and role of religion. Values, culture, community, and social norms are identified as major ingredients of sustainable principled culture development, and implementation of ethical policies and procedures require institutional and structural mechanisms for effectiveness in family-owned businesses. Numerous findings are in contrast to the literature, whereas, in other instances these are similar. Religion, society, family image, the entrepreneurs themselves, and their family members play a vital role. Non-interference in private matters of the employees, whistle-blowing, code of ethics, training and awareness creation, and a number of other factors play a leading role in ethical culture development in family businesses.

**Keywords:** Ethics, Ethical Culture, Family-Owned Businesses

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## 1. INTRODUCTION

Sustainable ethical philosophy in family-owned businesses reflects a contemporary approach rooted in moral values and long-term sustainability. Recent research by Chrisman et al. (2020) underscores the significance of intergenerational stewardship, where family values guide responsible decision-making for lasting success. Symeonidou et al. (2022) emphasize how a shared ethical foundation enhances family cohesion and business resilience. Integrating insights from Habermas' (1991) discourse ethics, such approaches promote transparent communication and inclusive decision-making. By adopting these sustainable ethical philosophies, family-owned businesses can foster not only financial success but also societal and

environmental well-being, aligning their operations with broader ethical imperatives.

Ethics is an important commonly used term. The ethics and morals that we were taught or learned in our lives, shape our behavior personally as well as professionally. Ethics is derived from the Greek word "*ethos*", which means habit or custom whereas the word "moral" comes from the Latin word "*moralis*", meaning mores of customs. Ethics is defined from several perspectives. According to Treviño and Nelson (1999), ethics can be defined as a set of moral principles or values portraying ethics as a highly personal matter. Organization ethics, on the other hand, describes what constitutes right and wrong or good and bad, in human conduct in the context of an organization (Mellahi et al., 2010).

The ethical theory posits that family-owned businesses, driven by shared ethical values, can achieve sustainable success by fostering responsible decision-making and harmonizing economic, societal, and environmental concerns. This theory draws on insights from literature focusing on family business dynamics, ethical philosophy, and sustainability.

Family businesses are guided by a set of principled values that span generations. This shared ethical philosophy serves as the foundation for decision-making, aligning business operations with the family's commitment to social and environmental responsibility.

The theory proposes that a strong ethical foundation fosters family cohesion, reinforcing a shared sense of purpose and commitment. Moral cohesion minimizes conflicts and enhances the ability of family members to collaborate effectively while adhering to sustainable principles.

Inspired by Habermas' (1991) discourse ethics, the theory suggests that sustainable ethical family businesses prioritize transparent communication and inclusive decision-making. Open dialogue allows for the ethical evaluation of business strategies, promoting consensus and fostering a culture of accountability.

Sustainable ethical family businesses balance economic profitability, social responsibility, and environmental stewardship. This equilibrium ensures that the business contributes positively to society and the environment while maintaining long-term financial viability.

On the other hand, the intergenerational ethical resilience theory proposes that sustainable family-owned businesses thrive when underpinned by a dynamic ethical philosophy that evolves across generations. Rooted in the works of Al Halbusi et al. (2021) and Symeonidou et al. (2022), this theory asserts that a shared ethical philosophy enhances family cohesion, shaping decision-making toward sustainable practices. Drawing from Habermas' (1991) discourse, ethics, transparent communication, and inclusive discourse foster ethical alignment and informed choices. This interplay of ethics and sustainability is fueled by a commitment to intergenerational stewardship, as family values guide responsible actions (Al Halbusi et al., 2021; Giacomini & Jones, 2022). The theory posits that by nurturing this ethical resilience, family-owned businesses navigate complexity, adapt to change, and create lasting social, environmental, and economic value.

The rich body of literature amply discusses ethical culture development; however, it is important to answer the following research questions:

*RQ1: Are the measures value-driven?*

*RQ2: What are the challenges in implementing an ethical culture?*

*RQ3: How are ethical policies developed in relation to the functions of the business?*

*RQ4: What is the implementation process?*

This study attempts to answer the above questions and add to the knowledge in terms of family businesses in particular and traditional businesses in general. The particular family businesses have been selected for several reasons as shown below.

1) The knowledge gained from family businesses will contribute and add another dimension to existing literature.

2) It will help identify if there are any differences between the family business and traditional businesses when it is related to the ethical culture. It will add interest to the study because of the unique nature of the family businesses.

3) The context of Saudi Arabia and family business would provide a unique blend and the information so gained might be able to provide a different perspective to the ethical culture development.

Thommen's (2003) model of credibility strategy implementation, developmental frameworks, and studies of ethical structures proposed by Morris et al. (2002), Belak and Mulej (2009), Murphy (1995, 1998), and Laufer and Robertson (1997), presents the foundation for the empirical part of this research.

The studies contributing to the topic have been numerous. However, this paper has been unique in many areas and added to the knowledge of the subject matter. The contributions could be outlined as follows.

1) The role of ethical systems policies and procedures in a family-owned business context with reference to Middle Eastern and particularly Saudi Arabian business.

2) The paper particularly identifies formal and informal measures and structures of ethical practices implementation in family businesses.

3) The role of ethical policies and systems in functional areas of the family business.

4) The paper has developed an understanding and drawn differences between traditional and family-owned business ethical practices, policies, and procedures.

This paper is divided into five sections. Section 1 introduces the paper identifies the gaps and poses research questions. Section 2 discusses the literature in detail and summarizes it where necessary. Section 3 explains the methodology by revealing the profiles of researched companies and provides response summaries and classification. Section 4 provides findings and discussions. Section 5 concludes the paper.

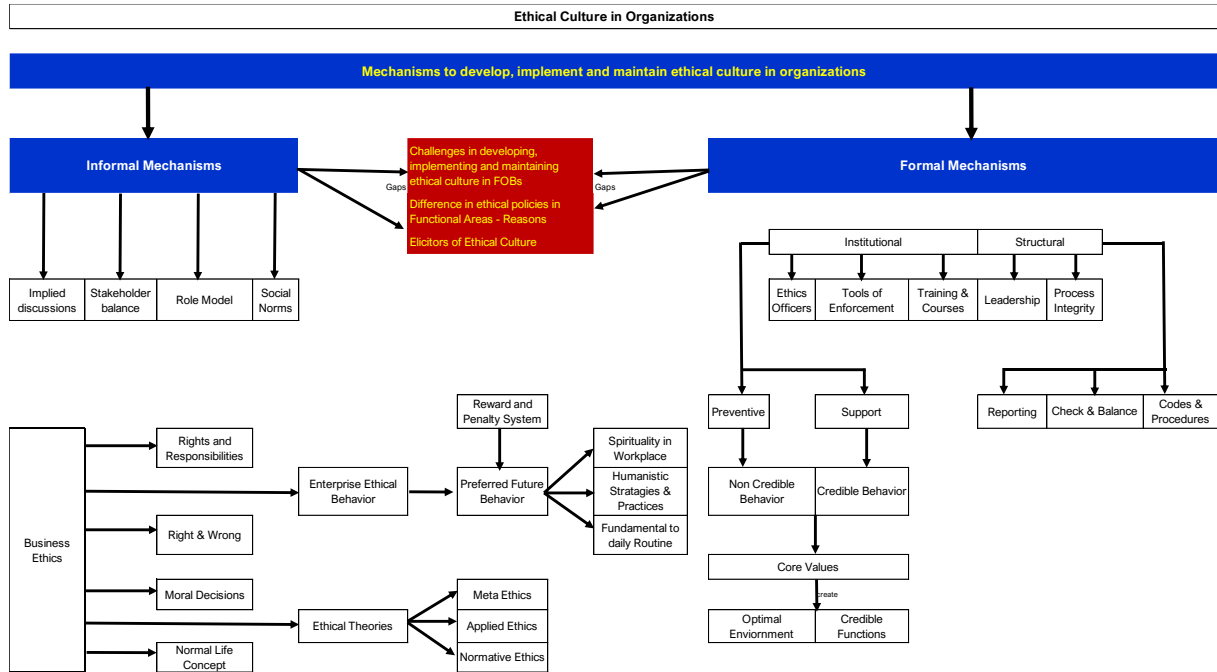
## 2. LITERATURE REVIEW

In a business, ethical policies and procedures are practiced when controversial issues arise in corporate governance, like, insider trading, bribery, discrimination, business social responsibility, and fiduciary responsibilities. Business ethics is applied to businesses to ensure a certain level of trust between consumers and businesses. Ethics in a business refer to the equity and morality of employees to help avoid discrimination in the organization and thus get closer to achieving the organization's goal (Mellahi et al., 2010). Loughran and Russell (2002) and Amato et al. (2023) suggested that morality plays an important part in businesses by shaping employees' behavior. They opined that it is important that a business leader demonstrates as a moralist, where he instills ethics and morality in the organization with not only his words but actions as well.

The literature identifies “formal” and “informal” mechanisms that help implement the ethical culture in an organization. The informal mechanisms could be implied discussions, the stakeholder balance, being the role model, and

the social norms that restrict unethical behavior displayed by employees. On the other hand, the formal mechanisms are more related to the institution and have a structural nature. Figure 1 below summarizes the literature.

Figure 1. Literature summary



The above summary and literature are based on the work of numerous scholars (Murphy, 1998; Treviño et al., 1999; Laufer & Robertson, 1997; Thommen, 2003; Sajjad et al., 2013; Kobayashi et al., 2017; Morris et al., 2002; Casell et al., 1997; Adam & Rachman-Moore, 2004; Treviño & Nelson, 1995; Cavanagh & Moberg, 2023; Gebler, 2006) recognized that this is a significant problem, especially in start-up enterprises (Treviño, 1990; Treviño & Nelson, 1999; Ardichvili et al., 2009; Naranjo-Valencia et al.,

2011; Iivari & Iivari, 2011; Prajogo & McDermott, 2011; Gebler, 2006; Nguyen & Mohamed, 2011; van Zyl, 2012; Adams et al., 1996).

This literature suggests that the formal measures of business ethics implementation define several criteria for an effective compliance program (Laczniak & Roberson, 1999; Morris et al., 2002; Thommen, 2003; Belak & Mulej, 2009; Belak et al., 2012) and may include:

Table 1. The elements of business ethics implementation

A statement of the enterprise's core values	A compliance manual	A code of conduct
A mission statement	Anonymous hotlines	Job descriptions
Training in ethics, evaluation of ethical behavior	An ethics committee, an ethics audit	Sanctions for ethics abuse
Ethics standards and indexes	An ethics consulting service, an ombudsman and ethics advocate, a manager responsible for ethical issues, and more	

These elements are indispensable when communicating moral expectations within the enterprise. Based on the earlier text, we argue the importance of the following formal institutional measures of business ethics implementation.

Table 2. Formal institutional measures of business ethics implementation

Core value statement	Mission statement
Code of ethics	Compliance manuals and ethics standards and indexes

Reward and penalty systems have been widely discussed in the literature and suggest that a reward system is an important tool in incentivizing employees on specific occasions when they

positively resolve conflicts or dilemmas by implementing ethical behavior. Treviño and Nelson (1999), Treviño and Ball (1992), Breuer (1998), Dalla Costa (1998), and Wheelen and Hunger (2004) discussed formal and informal measures which are identified in the detailed literature examination and presented in summary below.

A code of ethics as an implementation tool has been a subject of interest for researchers in the past (Mathews, 1987; Murphy, 1995; Treviño, 1990; Morris et al., 2002). The research investigation shows that more than 90% of enterprises have a code of ethics or some type of ethics statement (Morris et al., 2002; Adams et al., 2001). The work of Thommen (2003), Adam and Rachman-Moore (2004), Treviño and Nelson (1999), Morris et al. (2002), and

Weaver et al. (1999) argue that the ethics deals with different issues, like:

- 1) How to live a normal life;
- 2) The formula of right and wrong;
- 3) The rights and responsibilities;
- 4) Moral decisions — What is good and bad?

According to Krawietz and Reifeld (2008) and Driscoll and McKee (2007), ethics has lost its significance in our societies; they believe this is due to people's conception of ethics has changed and also due to the challenges that morality had to face. Enron's case showed that not telling the truth and/or ignoring misconduct may result in a disaster, where the company goes downhill and loses jobs due to a mistake made by the company's CEOs (Ferrell & Ferrell, 2011).

Sorenson and Milbrandt (2023) argue that understanding the ethical culture in family businesses requires a nuanced examination of the dynamics unique to these enterprises. Ethical culture plays a pivotal role in shaping the behavior and sustainability of family firms. Whereas, Richards (2023) opines that the cultural context within which a family business operates can also shape its values. Chua et al. (2003) emphasize that family businesses need to consider how their values align with the broader cultural context, especially when operating internationally.

Chrisman and Patel (2012) highlight how values alignment and identity are foundational aspects of ethical culture in family businesses. The unique interplay of family dynamics, ownership, and management can significantly influence the values that drive these enterprises. Here are contextual insights supported by references and citations on the topic of values alignment and identity in the context of ethical culture in family businesses. Family businesses often have a strong connection between ownership and management, which can lead to a more pronounced focus on shared values. This alignment can foster a robust ethical culture.

Trust is a critical element of ethical culture in family businesses. Trust is often built on strong family relationships, as family members inherently rely on each other in these enterprises. Dyer and Whetten (2006) emphasize that trust within family businesses can lead to ethical behavior, as individuals are less likely to engage in opportunistic actions when trust is high. Trust is a vital component of values alignment in family businesses. Family relationships, built on trust, can influence the ethical decisions made within the business. Nordqvist et al. (2014) emphasize the importance of trust in maintaining a shared ethical culture.

Ethical culture can be influenced by how leadership transitions are managed. Effective succession planning in family firms can ensure that ethical leaders continue to guide the business. Nordqvist et al. (2014) argue that ethical leadership and a clear succession plan are essential for maintaining an ethical culture in family firms. Dieleman and Koning (2020) in their study found that succession planning and ethical leadership are intertwined and correlated. On the other hand, Signori and Fassin (2023) suggest that family members and stakeholders compete in the race to succession.

Transparency and accountability mechanisms can contribute significantly to an ethical culture. In a study by Gomez-Mejia et al. (2001), they emphasize that transparency in decision-making processes and accountability for actions are vital for maintaining an ethical environment within family businesses. Similarly, family businesses are often characterized by accountability and sustainability. This focus on sustainability over generations can lead to the cultivation of ethical values, such as responsibility and accountability, which are conducive to the longevity of the business (Berrone et al., 2012).

Ethical culture in family businesses often extends to their commitment to social responsibility. Naldi et al. (2007) suggest that family firms may engage in socially responsible activities as a means of preserving their reputation and adhering to their ethical values. Family businesses assist female entrepreneurs to succeed (Rahatullah, 2017). Values alignment often involves the transmission of ethical values from one generation to the next. Habbershon et al. (2003) discuss the role of family business leaders as "moral custodians" responsible for passing down ethical values to ensure continuity in meeting social responsibility and maintaining their reputation.

While family businesses often prioritize familial relationships, excessive nepotism can hinder the development of a strong ethical culture. Miller and Le Breton-Miller (2005) argue that balancing family involvement with external expertise is crucial to prevent nepotism-related ethical issues.

As family businesses expand globally, they encounter diverse ethical and cultural contexts. Ethical culture should adapt to these contexts. Chua et al. (2003) highlight that family businesses often have to navigate the challenges of integrating ethical values across different cultural settings. The cultural context within which a family business operates can also shape its values. Chua et al. (2003) emphasize that family businesses need to consider how their values align with the broader cultural context, especially when operating internationally.

Ethical culture in family businesses is shaped by a combination of values, trust, leadership, transparency, and adaptability. Maintaining a strong ethical culture in these enterprises involves addressing the unique challenges and opportunities that arise from family involvement and ownership. Researchers continue to explore this area, emphasizing the importance of ethics in the sustainability and success of family firms.

### 3. RESEARCH METHODOLOGY

One of the major reasons for doing qualitative research is to become more experienced with the phenomenon of interest. The data are normally "raw" and not pre-categorized (AlKhateeb, 2018). Whereas, Sorsa et al. (2015) state that qualitative methods provide distinctive value to investigate complex and sensitive issues. The data can be recorded using any of the number of options available from stenography, audio recording, video recording, or written notes.

Random sampling was utilized to select respondents. The companies were selected on two criteria, one randomly and the second the companies who responded. It was because random sampling is a methodological cornerstone in empirical research for several compelling reasons. Firstly, it ensures that each member of a population has an equal and independent chance of being selected for a study (Fisher, 1925). This unbiased selection process minimizes the risk of selection bias, bolstering the external validity of research

findings. Secondly, random sampling facilitates the generalization of research findings. By providing representative samples from a larger population. It allows researchers to conclude entire populations based on the characteristics of the sample.

According to the Forbes Middle East list of the top 100 Arab Family Businesses for 2023 the number of Saudi family businesses is 33. All these companies were contacted. However, 25 responded and 12 agreed to provide information. Table 3 identifies the sample selection method used.

**Table 3.** Sampling

	<i>Number of Saudi family businesses among the largest 100 in the Middle East</i>	<i>Number of companies responded</i>	<i>Number of companies picked randomly to participate in our study</i>
Numbers	33	25	12
Percentage, %	33	76	36

Telephone interviews were conducted and the literature on qualitative research is ripe with works such as King and Horrocks (2010), Burr (1995), Mikene et al. (2013), Patton (2002), Creswell (2009), Billing (1987), Weiss (1994), Nielsen (2007), Corbin and Morse (2003), Chan et al. (2013), and Talmy (2010). These scholars discuss the importance and role of interviews from different perspectives including their ability to explore a phenomenon in detail.

Personal interviews were conducted in this research with the representatives/employees of the family businesses. All requests for interviews were sent to 37 family businesses known to the researcher and his circle of associates. It took 16 months of work to realize 12 granted interviews starting October 2016 to April 2018. The context of the study had been family businesses in Saudi Arabia. The reason for this was that these companies were accessible. Based on the gaps and potential research areas identified, the open-ended questionnaire was developed with 31 questions. The dependability in the study was assured by developing a questionnaire and asking the same questions to each respondent for contextual ascertainment and gaining dependability. The interviews conducted in this research take "an action-oriented position" where these interviews are viewed as an action context and the focus is on insights secured from experts/family members of the business.

### 3.1. Profiles of researched companies

The businesses selected belong to diverse sectors and these are listed among the top 100 Saudi businesses. Table 4 below provides a brief profile of these companies.

**Table 4.** Profile of researched companies

<i>Company name</i>	<i>Products and services</i>	<i>Date of establishment</i>
Trans Desert Transport Company	Logistics	1976
Coca-Cola Bottling	Drinks	1993
Nestle Water	Water	2001
Kadi and Ramadi	Children books	2006
PepsiCo	Food & Beverages	1965
McDonald's	Fast food	1994
Bin Mahfouz	Industrial	1951
Almarai	Food & Beverages	1977
Unilever	Food & Beverages	1929
AlBaik	Fast food	1974
Centrepoint	Clothing and home decor	2002
Omnat	Poultry products	1990

### 3.2. Response summaries and classification

The interviews were recorded and notes were also taken with the help of research colleagues. After the interviews were completed the responses were summarized into six categories shown below.

- 1) The importance the family businesses attach to ethics and ethical policies and procedures.
- 2) The challenges faced in implementing the ethical policies and procedures.
- 3) Alignment of ethical policies and procedures to company CSR practices and society.
- 4) The value provision of these policies and procedures.
- 5) The implementation *modus operandi*.
- 6) Role of ethics in functional areas of the business.

**Table 5.** Interview summary: Community, society, and values

Questions	Trans Desert Transport Co. Ltd	Coca-Cola Bottling	Nestle Water	Kadi & Ramadi	PepsiCo	McDonald's	Bin Mahfouz	Almarai	Unilever KSA	AlBaik	Centrepont	OMMAT
How is your ethical policy aligned to social priorities and community?	Help community uplift	Raising public awareness on child labor	Depends on the country	They hold settings to increase ethical awareness	By offering healthier choices	Healthy choices	Safe and Secure environment for shopping	Healthy alternatives	Responsibility to people and environment	Since 1996 CSR have been part of culture	By making contributions and offering opportunities	By giving back to the community
Do you believe that the Ethics and religion go hand in hand?	They work within the principles of Islam	There shouldn't be religion discrimination	No, they don't	Yes, they are practically one	Yes, they do	Yes, they do	Yes	Yes	No, they don't	Yes	Yes, they do	Yes
How can you bring transparency in routines in business?	Code of Conduct	Internal Communications	Communication and setting objectives	Through emails and weekly meetings	By discussing ethics with our employees	Through the open-door policy	Flat structure and open-door policy	Regular information flow	Employees have the same information	Communications	By training the employees	Communication and by having everything written
How Trust and Ethics play part in the business?	By building a positive environment and keeping in mind other countries' values	Important for the success of the business	You have to build trust to do business	Without it, you can't do business	By building a bridge of trust for consumers	Being ethical makes you credible	It develops commitment among stakeholders	Great at developing business	the entire business is built on trust	When partners trust we develop together	By treating the customers ethically	The trust and ethics run hand in hand to grow business and stakeholder culture
Is it ok to monitor the emails, activities and internet browsing by employees?	No, it is not	No	No, they do not monitor their employees	No, especially if the employees love their jobs	They do not monitor their employees	No	No	No	Only in the case of suspension	No, it is a matter of trust	No, it's not	No, it deteriorates the relationships and trust
Does your company have any mechanism to attendance?	Yes, they have finger scanning	No, they don't	Yes, they have finger scanning	They have a time sheet	Yes, finger scanning exists	They have time card sheet for restaurant crew	Thumb impression	No	No, it doesn't	Electronic system	Yes, finger scanning exists	Thumb verification
What else can this mechanism achieve?	Records of employees' attendance	Attendance	For Safety purposes	Fosters a sense of trust and responsibility	For security Purposes	Attendance and nothing else	Attendance	Attendance	Attendance	Trust and giving employees their space	Monitoring the employees' attendance	Attendance
Do you encourage whistle blowing and how do you keep it confidential?	Yes, for the betterment of the organization	Yes, they do	They call it "speak up"	They have a confidentiality contract	Yes, but it is kept as classified	Yes	It is great tool when used anonymously	We have a mechanism in place for it	Yes, they do	Yes, they do	No, they don't	We encourage it as it is good for our business and culture
Do you believe nepotism is good?	No	No, it is not	No, it is not	No, but they are given chances to prove themselves	No	No, it is not a good thing	No	No	No, it is not	Depends how we perceive & implement it	No	No, it is not
Is it ok to make a distinction between the employees on the basis of gender?	No	Only for the jobs which are exclusive for a certain gender	No, they have more than 80 nationalities	No, it is not	Some jobs are for males only	No, except when it comes to Saudi law and culture	There are some jobs women cannot do	No	No, it is not	No	Depends on jobs	No, but women take maternity leaves
Do you believe that everyone is equal when it comes to business? Like junior, senior and gender	Yes, everyone is equal	Yes, everyone is equal	Yes, everyone is equal	They don't always base it on experience	Yes	Yes, everyone is equal	Yes	Yes	Yes, everyone is equal	Yes, everyone is equal	Yes	Yes

**Table 6.** Response summary: Implementation *modus operandi* and challenges

Questions	Trans Desert Transport Co. Ltd	Coca-Cola Bottling	Nestle Water	Kadi & Ramadi	PepsiCo	McDonald's	Bin Mahfouz	Almarai	Unilever KSA	AlBaik	Centrepoint	OMMAT
What steps have you taken to help everyone follow ethical policies in your company?	Employee orientation, continuous training and awareness	Training and awareness	Induction, refreshers, awareness, the Nest, win a prize with Nestle	They have manual with all ethical rules	By providing annual ethics training program	Awareness through internal communications & encouragement	Code of Conduct	Code of Conduct	Employees are trained and tested	Engaging employees into ethical policies	Having the code of conduct as a guideline	By being a role model and having written regulations
What is the role of CEO in implementing ethical policies?	Making sure ethical values are conflicting race, policy matters	Role modelling	He is the person with authorities	Acting as a role model for the employees	He empowers executing moral strategies	Writing and updating the code of ethics	CEO is the leader and role mode	Developing and implementing policies	Communicating policies	Role model	Assigning positions and salaries	Developing, seeking approvals, communicating and monitoring
What is the role of managers in implementing ethical policies?	Implement policies provided by CEO	Leading by example	They have to ensure the continuity of operations	Overseeing the daily events	He administrates the execution of moral strategies	Understanding the employees	Role models	Role models	Follow the business policies	Act as a role model for employees	Implement	Implemented control
How do ethical policies impact the business?	Business is built on these practices	Important for human and workplace rights	Maintains collective and individual relationships	Builds loyal relationships with clients	These are foundations of business	They have a lot of impact	Business grows because of this	Customer relationships	Employees will work more efficiently	Ensures highest standard of quality	Stakeholder relationships	It greatly impacts the business
What is the role of Social media in developing an ethical culture?	Making every one aware	Easy to communicate to employees	Important in responding to negative trends	It helps in communicating with more people	Stakeholders can be kept informed	Sustaining good relationship with customers and keeping ethical reputation	Internal communications	Communications	Makes people more mindful	Communicating with employees	Communications	They help in creating a family like environment
Do you implement any such practice?	Yes, they do	Yes	They created DAT to track negative customer sentiments	They have gatherings to discuss their rights	Yes	Twitter and Facebook for recruitment and services	Yes	Yes	No, they don't	Yes	Yes	Yes
What can Government do in order to ensure the ethical policies?	Discussion of ethical policies between the CEO and government authorities	Regular discussion at senior levels	They can initiate audit	Implement an award system for businesses	Briefings to Shura Council	Provide line for complaints	Involve us	Include the major companies in discussions and feasibility studies	Establish clearer laws and punishments	Spread awareness in terms of ethical rules and regulations	Involve Chamber	Shura Council
How do you encourage your employees to follow ethical practices at personal levels?	By providing incentives for good attitude and behavior	Develop and promote values and ethical vision among organization	By promoting right values	By building an ethical culture, it becomes a habit	Making it safe for people to talk about ethics	Posters, disciplinary procedures	Regular communications of organization's values, ethics expectations and industry ethics codes	Open discussions on making ethical decisions	Through communication	Regular discussions	Ethical decision making should be made easy	Ethical decision making made easy
Does your company have an ethics manual?	No, whatever is provided by the government if followed	Yes	Yes, the Nestlé Corporate Business Principle	Yes, since 2010	Yes, we follow international manual	Yes, since opening	Yes	Yes	No, everything is online	Yes, they do	Yes, and provided online	Yes

Table 7. Interview summary: Functional areas and importance

Questions	Trans Desert Transport Co. Ltd	Coca-Cola Bottling	Nestle Water	Kadi & Ramadi	PepsiCo	McDonald's	Bin Mahfouz	Almarai	Unilever KSA	AlBaik	Centrepoint	OMMAT
What are the challenges in implementing ethical practices in Human Resources?	Justifiable distribution of rewards	Compensation management	There are no challenges	Laws of natives getting more salary	Developing criteria for compensation employees in a multicultural organization	Females working in a crew, Saudization, education	Difficult to adjust rewards on performance	None	There are no challenges	Rewards distribution	Compensation policies require working	Recruiting and training the right people
Does your Recruitment policies make distinction between employees?	Yes, depending on job, we have to make distinction	No	No, they don't	Sometimes the system makes it difficult	For jobs that are gender specific	No, but they have to cope with the culture	Only for jobs where male and females are expected	No, for most of the jobs we don't	No, only when it comes to Saudization	Yes, we have a business in which gender discrimination is important for some particular jobs	No	No, only when it comes to Saudization
Does your Compensation and Benefits policies make distinction between employees?	Performance matters	No, it doesn't	No, they pay for the position not the person	No, it is based on achievements	No, we are performance-based company	Sometimes, Saudis get paid more	No	No	No, it is based on experience and responsibility	No, they don't	No	No, it is based on feedback
Does your Training and Development policies make distinction between employees?	No, it is considered discrimination	Only on basis of requirements	No, it doesn't	No, it doesn't	Because of women boarding and lodging	No, it doesn't	No	Due to women travel restrictions we do	No, it doesn't	If travelling is required, we make choice	It may depend if the woman needs to travel	Yes, due to travel restrictions on women
Is it important to include ethical policies in Finance and Accounts?	In some cases, we require Arabic speaking employees	Yes, to avoid legal problems	Yes, they have to be extra cautious with money	Yes, especially for publishers	Sometimes Arabic speakers are needed for a particular job	Yes, it is important	No	Sometimes, Arabic speakers are needed for a particular job	Yes, it is important	Yes, it is important	Sometimes, Arabic speakers are needed for a particular job	Yes, it is important
Does your company have such policies in Finance and Accounts?	No	No	It's how they do business	Yes, reports on book's sales are provided for writers	No	They follow British Code of Accounting	No	Seldom	Yes, gifts more than \$100 must be reported	No	No	They follow Islamic Sharia Law in financial transactions
Is it important to include ethical policies in marketing?	Yes	Yes	Yes, it is important	Yes, it is important	Yes	Yes, it is important	Yes	Yes	Yes, it is important	Yes, it is important	Yes	Yes, it is important
Does your company have such policies in marketing?	Yes	Yes	Yes, they provide information on each product	They don't focus much on Marketing	Yes	Yes, by ensuring that the offerings on TVs are exactly the same as the reality.	Yes	Yes	All employees are trained on the same set of ethics	Yes	Yes	Yes, ethics is in the core of everything they do



## 4. FINDINGS AND DISCUSSION

### 4.1. Formal and informal measures and structures of ethical practices implementation

In order to understand the formal and informal measures and structures of ethical practices implementation the responses of the companies have been divided into 6 main categories. These are the same categories developed after the response collection and identified in the "Response summaries and classification" subsection above.

This study attempts to provide insight into an ethical, moral, and administrative dilemma of developing and then implementing the formal and informal systems, procedures, and processes that help stimulate a sustainable ethical culture.

#### 4.1.1. Importance and benefits of ethical policies

The responses are provided by a particular officer of the firm working with the companies.

The first question in the structured formal interview questionnaire was to know the importance attached to ethical policies by businesses and the steps taken to develop an ethical culture. Among the most important factors in developing, implementing, and maintaining ethical systems, policies, and procedures is that such policies help build the brand, image, and trust of stakeholders.

Family businesses such as Trans Desert, Al Jomaih, and Bin Mahfouz, suggest that ethical policies are very important and these are the foundation of the business and its culture development. AlBaik responses were that ethical policies build organizational norms and human relations. Firms such as Al Baghdadi, Batterjee, Al Kabeer, and Al Bander opine that the customer including collective, individual, and stakeholder relations are built on ethics. Al Olayan, on the other hand, saw the rights issue and asserted that ethics help develop human and workplace rights; however, employees may perform comparatively more efficiently and produce quality output while working in an ethical environment suggested the Bin Zagr opined interview respondent.

Trans Desert believes that credibility, morality, and loyalty are essential for trust building and hence the role of trust and ethics is all the more important. This was further endorsed by Nestle Water by suggesting that these qualities build bonds among employees and are important for B2C relationships. PepsiCo, Coca-Cola, and Almarai dealing in bottling and dairy products had strong opinions about the ethics and such a culture. They suggested that ethics would build consensus promote consistency, and improve company credibility. These factors are considered important as well.

The respondents also opined on prominence by advocating for appreciation of values, respecting and protecting workplace rights, and periodic review of ethical procedures, policies, and manuals.

Companies like Batterjee and AlBaik identified a number of benefits in implementing and following ethical policies. Major findings related to benefits include the development of trust components. It was also envisaged by Rahatullah (2014). The study elaborated that once the trust components like, credibility, integrity, and benevolence prevail,

securing the partner/stakeholder commitment becomes easier and leads to competitive advantage. It is interesting to note that the companies find achieving these components an important benefit for their firms.

#### 4.1.2. Implementation of ethical policies

The literature identifies that businesses take certain measures to help employees follow ethical practices. The studies of Phillips (2011) and Taylor and Simpson (2013) identified a number of measures taken by companies to disseminate the information to their employees. The responding family-owned businesses identify steps to help everyone follow ethical norms. These included regular training and awareness, a manual, or a code of conduct. Engaging employees in discussions, reflection, and reporting and the managers acting as role models to follow ethics.

Companies such as Al-Marai, Unilver, and AlBaik help open discussions on ethics and ethical practices through communications in routine. Family businesses including Bin Mahfouz regularly communicate the organization's values, industry ethical code, and expectations with internal and external stakeholders.

A number of businesses like Trans Desert, Nestle Water, Kadi and Ramadi, PepsiCo, Bin Mahfouz, Centrepoint, and Omnat suggest that the managers are implementers of the policies as envisaged and recommended by the CEOs and the boards. However, Coca-Cola, Bin Mahfouz, Kadi and Ramadi, and AlBaik also identified the role of CEOs as role models in implementing these policies.

Three roles of Government were identified in the implantation of ethical policies and procedures in the business community by the respondents. PepsiCo and Omnat suggested involving the Shura Council (Consultative Assembly for the King) in order to bring uniformity. Whereas, AlBaik and Bin Mahfouz suggest involving the business community in the government to conduct audits and reviews to produce reports and implement. The other family enterprises suggested that the business community has little understanding of ethical policies and systems.

#### 4.1.3. Ethical policies and systems in functional areas of the business

Companies like Unilever suggest that the practices in recruiting at times may need adjustments especially when it comes to mandatory requirements by the government to employ a set number of Saudi citizens and when the jobs are gender specific as stated by Al Jomaih, Bin Mahfouz, and AlBaik. Otherwise, the companies do not discriminate in hiring the workforce.

The benefits and compensation packages are related to achievements (Erdogan, 2023) like in Kadi and Ramadi, whereas, it is related to performance in Trans Desert and PepsiCo, on the other hand, Unilever in Saudi Arabia relates it to the experience and responsibility levels, and little distinction is made in this matter. At times companies pay more salary to Saudis than non-Saudis as in some companies.

Training and development policies impact a great deal on employee job satisfaction, morale, and motivation as suggested by Sajjad et al. (2013) and Kobayashi (2017). Responses seem to be corresponding to the literature and suggest companies do not make any differences in the choice of employees for training and training choice is built on need (Coca-Cola). Ethics in Finance and Accounting play a vital role in implementing ethical practices and it determines the reputation of a company a great deal. The Saudi family-owned businesses seem to be aware of this fact and businesses such as Coca-Cola cite legal issues as well if they do not comply with the ethical problems in finance and accounting. However, a specific policy has to be implemented and that is that the finance and accounts should be led by a Saudi national for legal purposes.

#### 4.1.4. Ethical core values

The exploratory questions on ethical core values included equality, gender-specific policies, nepotism, monitoring emails, and website browsing, transparency, whistle-blowing, and attendance. Beschorner and Hajduk (2017) argue that responsible practices are culturally embedded and transparency is a major dynamic in identifying, developing, or implementing ethical values. The entrepreneurs running family companies in Saudi Arabia contend three major ways to bring transparency. Companies like Coca-Cola bottlers, Nestle Water, Kadi and Ramadi, PepsiCo, McDonald's, Bin Mahfouz, etc., bring in transparency through direct, internal, or open-door communications.

The companies assist and encourage employees to perform ethically at personal levels, as being practiced at Trans Desert who provide incentives for good attitude by the employees. Whereas, Coca-Cola and Nestle Water promote ethical vision and values among their organizations. Some companies encourage and safeguard whistle-blowing by providing safety and anonymity to talk about wrongdoings, etc. Some companies such as Kadi and Ramadi and Bin Mahfouz assert that this is a great tool as it discourages ill practices. The PepsiCo keeps the whistle-blower information classified.

Monitoring employee emails has been an issue discussed by numerous studies. The businesses in Saudi Arabia have denied having any policy on monitoring employee emails. Having such a policy would deteriorate trust and relationships with employees except for Unilever which may screen suspended employee communications.

In order to bring transparency in business routines, the firms identify three steps to be taken, i.e., a code of conduct, internal communications, and training. Whereas, literature like Steen (2013) suggests moral awareness, moral reasoning, moral courage, and moral effectiveness as effective ways to build and nurture an ethical culture.

According to Sipior and Burk (1995), monitoring employee email or internet browsing is ethically incorrect. They considered it as intrusion; an intrusion into the private affairs of the employees and regarded it as highly offensive. The study found similar answers and the family businesses in Saudi Arabia also hold such views and overwhelmingly regarded it as an employee private affair and inappropriate for the employers to monitor

the emails of their employees. The responses are mixed on both the employee internet browsing and email monitoring policy and at times remain in contrast and other instances as per the literature.

#### 4.1.5. Ethical policies and society/community

The responses of the companies related to their ethical policy alignment to social priorities and community were very interesting. The three factors emanating from the responses are the creation of public awareness, offering healthier choices, and effective contribution to the environment. Most companies align their policies by offering a safe and secure environment for shoppers, they contribute to the environment through their CSR programs that include generating public awareness and offering the customers and consumers healthier alternatives.

The companies were asked about their opinion on how trust and ethics play a part in the businesses. The findings are revealing. This satisfies Rahatullah and Raeside's (2015) study where the authors relate commitment with the trust manifestation and business success. The findings show that the companies believe that once the trust components prevail, the commitment from relationships is secured and that leads to business success.

Al Olayan and Trans Desert Transport operate community uplift programs and assist groups of people in guidance on religious principles and beliefs. Similarly, child labor awareness campaigns are run by Al Olayan, Kadi and Ramady, Bin Mahfouz, and AlBaik. The majority of the businesses also seem to imply that religion and ethics are interdependent and interlinked. Ommat opined that they provide the community with as much assistance as they can as they create wealth from these communities.

#### 4.1.6. Challenges in implementing ethical policies and developing culture

The family businesses identified the following major challenges in the development and implementation of ethical norms and principles in organizations.

1) Lack of transparency in certain systems at the national level. However, the government has introduced a number of measures including the digitalization of the governmental procedures. The governmental services are now accessed through the Internet and businesses need not make any personal contact with the offices.

2) Import and export may be harmed as ethical policies are not the same across the world.

3) Saudization. It is the new law in Saudi Arabia that makes it mandatory for businesses to maintain a certain percentage of Saudi nationals as employees due to high unemployment rates in Saudi Arabia.

4) Human relations and psychological barriers lead to difficulties in following and adapting by certain employees.

5) Access to correct information and implementation policies sometimes are the major obstacles and challenges to implement.

6) Developing criteria for compensation employees in a multicultural organization

7) Providing all categories in each function of the business receive similar opportunities for development and training.

#### *4.1.7. Ethics and role of culture in the Saudi Arabian context*

The above discussion underpins that ethics and the role of culture are intricately intertwined in the Saudi Arabian context. Saudi Arabia's culture is deeply rooted in Islamic traditions, which significantly influence ethical norms and behaviors. Concepts like honesty, integrity, and respect for authority are highly valued. The ethical considerations are paramount, particularly in business and governance, where adherence to religious principles is emphasized. It was found that culture guides interpersonal relationships, emphasizing familial and communal ties, and impacting ethical decision-making. Moreover, cultural norms also affect gender roles and interactions, shaping ethical standards. Understanding this interplay is vital for individuals and organizations operating in Saudi Arabia, as it ensures alignment with local values and fosters ethical conduct in various aspects of life.

## **5. CONCLUSION**

This study has contributed to the knowledge by responding to particular questions unanswered in the literature. The above findings help conclude that values, culture, community, and social norms are major elicits of sustainable ethical culture development, and implementation of the ethical policies and procedures require institutional and structural mechanisms for effectiveness in family-owned businesses.

This research has identified that the importance of informal measures such as being a role model and adhering to social norms develops a stakeholder balance and delivers value. This is similar to the findings of the work of Ardichvili et al. (2009) and Adam and Rachman-Moore (2004) where the scholars identified the significance of informal measures. However, even though the above would also deliver leadership effectiveness, this study shows that among the benefits of an ethical culture would also include the buildup of credibility and an increase in the level of effectiveness standards. Credibility is an important component of trust (Rahatullah & Raeside, 2015). The study shows that family businesses attach importance to trust-enhancing measures in their organizations. Respondents were unanimous regarding the usefulness and effectiveness of the ethical policies and procedures, especially when it comes to stakeholder relationship management.

The literature suggested a lack of challenges identification in a sustainable ethical culture development even though there is consensus that such culture ensures success (Gebler, 2006). The study ascertains that the major challenges exist as narrated earlier, however, human resource management faces in recruitment, rewards, gender equality, and other related areas.

The family businesses are divided regarding the relationships between religion and ethics; however, this may again have a context dimension of

the study and may differ elsewhere. Mellahi et al. (2010) agreed that ethics and moral values are related to an individual's understanding either in one own or organizational capacity. The literature is ripe with discussions on the values the ethical systems deliver.

Communication has been considered as a key to bringing transparency to a business. Trust between a business and its employees is identified as a key to the effective outcome of an ethical culture. The ethical culture value is also recognized as gender equality and the family businesses consider that the gender equality in operations of the business is of significance. However, there is a difference of opinion on this equality when it comes to work distribution and compensation. This seems to be universally the case as well. Organizations increasingly are becoming tolerant and encouraging whistle-blowing.

Certain jobs can only be performed by either a male or a female and other than these the companies tend to maintain a non-gender-based policy. Family businesses seem to take more precautions against ethical norms when developing and implementing marketing strategies. The respondents have agreed to the need, effectiveness, and ethical culture's link to firm development, achievement(s), and prosperity.

The family-owned firms seem to be implementing the ethical policies, procedures, and systems in cognizance with and in a similar manner as non-family business. The firms adopt both institutional and structural measures (Thommen, 2003; Kobayashi et al., 2017). The family businesses also seem to further authenticate the findings of Morris et al. (2002) by endorsing the fact that the ethical cultures emanate from ethical values that the organizations set up. However, the role of senior employees like CEOs and managers has been highlighted as important in executing structural or institutional policies. The government plays a significant part in developing national-level laws and policies that are adhered to in the whole country.

Several implications as identified below can be drawn from this research as the study addresses gaps in the literature by providing insights into specific questions, especially in the context of Saudi Arabia.

The values, culture, community, and social norms are identified as major contributors to the development of sustainable ethical culture in family-owned businesses. Similarly, the study identified that effective implementation of ethical policies and procedures in family-owned businesses requires institutional and structural mechanisms. It was also realized that informal measures, such as being a role model and adhering to social norms, contribute to stakeholder balance and value delivery, aligning with similar findings in previous research. It is also implied that an ethical culture not only enhances leadership effectiveness but also builds credibility, which is crucial for trust. Trust is recognized as a vital component of stakeholder relationships. While the literature has emphasized the importance of a sustainable ethical culture, the study reveals challenges in areas such as human resource management, recruitment, rewards, and gender equality. It was also found that family

businesses exhibit varying perspectives on the relationship between religion and ethics. The study recognizes the contextual dimension and suggests that the link between ethics and moral values is often influenced by individual understanding. The study identifies communication as a key factor for transparency in business. Gender equality is recognized as an ethical value, though discrepancies exist in work distribution and compensation. Equally important is the fact acknowledged that family-owned firms implement ethical policies and procedures similar to non-family businesses, adopting both institutional and structural measures. The role of senior employees, particularly CEOs and managers, is emphasized in executing these policies. Another implication and result that the study puts forth is that the government is recognized for its significant role in developing national-level laws and policies that influence ethical practices across the country.

The study thus serves as a foundational platform for future research, suggesting potential

exploration of the relationship between ethics and culture from a social context perspective, especially in countries with religious diversity. These implications provide valuable insights for academia, practitioners, and policymakers, offering a comprehensive understanding of the dynamics of sustainable ethical philosophy in family-owned businesses and suggesting directions for further research.

The study can be used as the basis for future research to understand the relationship between ethics and culture from a social context perspective by carrying out a study in different countries with religious diversity that may reveal sustainability issues in a different context.

The research was carried out under constrained circumstances, making it challenging to connect with employees/officers of the firms. Even when contact was established, scheduling a call proved to be difficult, with 90% of respondents postponing the conversation to another day. On two occasions the calls were rescheduled at the 11th hour.

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