BOARD ETHICAL COMMITMENT AND CORPORATE PERFORMANCE: A QUALITATIVE PERSPECTIVE

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Abstract

The purpose of the study is to explore the responsibilities of directors in creating a good ethical culture in their organisation and examine whether good ethical practices are able to enhance a company's performance. To achieve this purpose, face-to-face semi-structured interviews with directors as the respondents are employed as a data collection method. This study found that board ethical commitments are necessary elements for sustaining the good performance of a company. The planning and monitoring of these ethical practices are the responsibilities of the board of directors, which then will be executed by top management, led by the chief executive officer (CEO). To ensure effectiveness, the code of ethics should not merely be a statement of intent but must be institutionalised and embedded in the working environment of the company. Trust, regulatory compliance, and good reputation are among the benefits derived if a company has good ethical practices. The result provides evidence of the roles and duties of the directors in nurturing a good ethical culture, which can lead to the sustainable performance of the company. This study is original as it examines corporate ethical issues by using a qualitative approach and considers the contribution of ethical elements from the directors' point of view, which is rare in business ethics literature. This study contributed by assisting the companies in formulating clear policies and guiding directors' ethical behaviours in order to hold them accountable for decisions made in the company. This will ensure directors make responsible and appropriate decisions in discharging their duties as directors.

Keywords: Business Ethics, Code of Ethics, Corporate Governance, Fraud, Interview, Board of Directors, Malaysia

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1. INTRODUCTION

The failures and exposure of corporate malpractices by many high-profile international companies such as Enron, Parmalat, WorldCom, Tyco, Polly Peck, HIH Insurance, AIG, Lehman Brothers, and Barings Bank have triggered much interest in researchers and regulatory bodies on the work of company directors, arguably the front liners who are responsible for the success or failure of a company. Although many reforms were enacted in the last decade to prevent corporate collapses, such as the introduction of new laws and codes of corporate governance, how directors work, and whether there are specified internal guidelines that guide their decision-making, which affects the stakeholders of the company, the collapse of many large companies provides significant evidence that, without ethical leaders, corporate governance mechanisms and any type of control may malfunction (Salin et al., 2020).

Enron, for example, was comprised of highly knowledgeable and competent directors, including a university professor from Stanford University, Harvard University alumni, and many respectable corporate individuals. This board was one of the best boards in the United States in 2000 (National Association of Corporate Directors [NACD], 2002). WorldCom also was run by well-known and prominent corporate leaders such as the chairman of an international rating corporation, the dean of law of a university, and several chief executives of other big corporations. Although run by a technically competent and highly experienced board, these companies still failed to sustain optimum performance (Schwartz et al., 2005).

In Malaysia, the effort to enhance an ethical corporate environment also was seriously taken, particularly after the Asian financial crisis in 1997 (Asmuni et al., 2015; Hamid et al., 2011). For example, the Securities Commission of Malaysia (2012) added a new principle, namely, a board ethical commitment in the revised *Malaysian Code of Corporate Governance 2012* (MCCG) with the objective to guide and control the conduct of the board of directors of listed companies in Malaysia. Bursa Malaysia (Malaysian stock exchange administrator) also launched a comprehensive *Corporate Governance Guide — Towards Boardroom Excellence* in 2012 with the intention to support the board and management to raise the bar for corporate governance, facilitate boards to steer their companies toward achieving sustainable growth, and build a more vibrant and dynamic capital market distinguished by the quality of its corporate governance practices (Abdullah, 2012).

However, although the regulatory authority placed much effort to improve the governance of the company, malpractices still occurred. Recent scandals, which involved Felda Global Ventures, 1Malaysian Development Berhad (1MDB), Majlis Amanah Rakyat (MARA), Malaysian Pilgrimage Fund (Tabung Haji) and Islamic Economic Development Foundation (YAPEIM), demonstrate that poor ethical practices by a board of directors contribute to a company's financial fraud (Manan et al., 2013). Earlier, Malaysia also was plagued with many corporate scandals that involved large companies such as Perwaja Steel, Bumiputra Bank, Maminco, Pan-Electric Industries, Malaysian Airline System, Port Klang Free Zone, Idris Hydraulic, Felda, Transmile and 1Malaysian Development Berhad (Salin et al., 2019).

A survey of prior literature found that the issue of directors' ethics did not receive considerable attention from scholars, which represents the gap of this study. Many prior studies on board of directors concentrated much on board committees (García-Sánchez et al., 2023; Orazalin, 2020; Shahar et al., 2020; Husnin et al., 2016), board responsibility (Salin et al., 2024b; García-Sánchez, 2020; Bebchuk & Weisbach, 2010), board independence (Arayakarnkul et al., 2022; Zaid et al., 2020; Balsmeier et al., 2017; García-Sánchez et al., 2015; Husnin et al., 2013; Hashim et al., 2014), and board remuneration (Rahayu et al., 2022; Lemma et al., 2020; Frydman & Jenter, 2010; Jaafar et al., 2019; Ahmad et al., 2016). Unfortunately, a lack of study has been found in the literature discussing the issues of ethics and morality by the corporate board of directors.

These developments have motivated the current study to fill this gap by exploring and investigating the commitment of the directors in establishing a good ethical working environment in their company and the contribution of the board ethical commitment toward a company's sustainable performance. In general, this research attempts to answer the following research questions:

RQ1: What are the responsibilities of the directors in creating a good ethical culture in their company?

RQ2: Do good ethical practices contribute to the good performance of the company?

Specifically, the purposes of the study are, first, to explore the responsibilities of directors in creating a good ethical culture in their organisation and, second, to examine whether good ethical practices are able to enhance a company's good performance.

This study is relevant as it makes several contributions to the scholarly literature in this field conducted by other authors before, as well as for the practice. First, this study assists companies in formulating clear policies and guiding directors' ethical behaviours in order to hold them accountable for decisions made in the company. This will ensure directors make responsible and appropriate decisions in discharging their duties as directors.

Second, this study will highlight the relevant regulatory bodies to place greater emphasis on preventing fraud and malpractices via good ethical practices. The results from this research provide evidence to these agencies that they should focus on promoting the right ethical culture and ethical framework to companies to complement their corporate governance guidance, laws, and regulations.

Finally, this study will extend the theoretical understanding of the boards' ethical commitment and contribute to the relevant literature review on the importance of ethical commitment to influence the positive culture of the organization. Much of the ethics literature only focuses on explaining the ethical attributes and organizational performance without considering the contribution of ethical elements from the directors' point of view. For example, studies by Choi and Jung (2008), Tyler et al. (2008), Pribble (1990), Pae and Choi (2011), Chun et al. (2013) and Gilley et al. (2010) only investigate the ethical commitment of the company

in general. Their study does not highlight who is actually directly responsible for the ethical commitment.

In addition, many prior studies concentrated too much on the corporate governance mechanism to safeguard the investment of the shareholders and protect the interest of the other stakeholders. Thus, our study is original as it adds to the existing body of knowledge by examining the influence of ethics on corporate performance by using a qualitative approach. Many prior studies use quantitative methods in which the findings are very brief and not comprehensive. In contrast, our qualitative method, which uses semi-structured interviews to collect data, is able to explore the phenomenon under examination more thoroughly, significantly and directly from the source of the problem.

This paper is organised as follows. Section 2 is a review of the literature, followed by a discussion of the research methodology in Section 3. Section 4 reveals the findings, while Section 5 entails the conclusion, limitations and suggestions for future research.

2. LITERATURE REVIEW

2.1. Fraud and unethical practices: Malaysian scenario

As with other countries, Malaysia has experienced many corporate scandals. Although much effort, especially from the regulators, has been made to stop these various scandals from occurring, they still continue. Cases that involved Perwaja Steel, Bumiputra Bank, Port Klang Free Zone, and 1Malaysian Development Berhad have wasted billions of shareholders' and taxpayers' money.

KPMG Malaysia (2010) in its *Fraud Survey Report 2009* provides several specific reasons or factors that allow fraud to take place in the organisation. The major factors that contribute to the fraud indicated by the respondents include poor internal control, collusion with external parties and unethical practices, which are consistent with the studies conducted by Mangala and Soni (2023), Alias et al. (2019), Karim et al. (2018), Omar et al. (2016), Rahim et al. (2017), and Zakaria et al. (2016). However, poor ethical practice is a major concern, as this factor shows an increasing trend, from only 17% in 2004 to 39% in 2008 (KPMG Malaysia, 2010). In its more recent *Fraud, Bribery and Corruption Survey 2013*, management override of internal controls and lack of controls over management by directors also are among the factors that allowed the fraud to take place (KPMG Malaysia, 2014).

The same report also exposed the severity of the fraud and malpractices present in Malaysia. Eighty-nine percent of respondents felt that the quantum of fraud has increased, while 80% of respondents felt that the incidences of bribery and corruption have increased in the last three years. More shockingly, 71% of respondents believed that bribery and corruption are an inevitable cost of doing business, while 64% believed that business cannot be done in Malaysia without paying bribes (KPMG Malaysia, 2014). This is consistent with the fraud survey conducted by Ernst & Young (2016), which found that 40% of Malaysian respondents agree that bribery and corrupt practices happen widely in Malaysian businesses.

The report released by the Transparency International (2017) also provided comparable results. Based on their survey, fewer respondents believe the government's actions are effective in fighting corruption, while 41% opined that the Malaysian Anti-Corruption Commission is doing poorly at fighting corruption. The survey also revealed that the police and political parties were noted as having the highest bribery risk, and this would seriously undermine the quality and fairness of the law enforcement institution.

2.2. Overview of board ethical commitment

The corporate scandals that continuously occur can be due to several factors. Kuhn and Ashcraft (2003) advocated that poor organisational structures in which unlimited power is placed in the hands of a few people in an organisation lead them to carry out performance manipulations, coupled with undue importance given to short-term rather than long-term results, particularly when a company is under pressure to meet shareholders' expectations and to beat analyst forecasts. This worsens when there is no check and balance mechanism to monitor the poor morals and attitudes of key individuals with unethical values. This might occur when a person is violating the company's guidelines, but inadequate monitoring results in no action being taken. Thus, others, particularly lower-level employees, will be encouraged to do the same.

Thus, it is important for corporations and business professionals to incorporate ethics in the overall management and operation of the company. This is because having morally and ethically behaved workers in an organization will result in a greater impact on the organization itself (Nawawi & Salin, 2018; Khadijah et al., 2015). Rezaee (2008) described business ethics as the process of promoting moral principles and standards that guide business behaviour. In an organization, the ways employees behave ethically depend on several factors such as ethics sensitivity, ethics incentive, and ethical behaviour. Ethics sensitivity is a moral principle established via workplace factors, loyalty, peer pressure, and job security. The employees will have a good moral intensity if the working environment highly emphasises good conduct and integrity. For example, the existence of social control among colleagues leads to self-regulation and share of common beliefs, values, and goals (Suhaimi et al., 2016). Ethics incentives comprise mechanisms for reward and punishment as a result of the employees' conduct. For example, the organisation can reward staff that behaves ethically by giving tangible (bonus) or intangible (praise) awards. However, if they behave otherwise, disciplinary action should be taken. Ethical behaviour relates to the conduct of the company's top management such as directors and executives. They need to set the appropriate ethical tone via actions and policies such as a firm commitment to ethical behaviour all the time (Salin et al., 2024a). For example, directors need to exercise zero tolerance to fraud and corruption in securing business contracts.

One important issue in business ethics is unethical leadership. Unethical leadership is described by Brown and Mitchell (2010) as behaviours conducted and decisions made by

organisational leaders that are illegal and/or violate moral standards. Coupled with poor organisational structures in which only a few people have the power to make decisions, unethical leaders will carry out performance manipulations that will only benefit them. This is worsened when inadequate mechanisms are in place to monitor key individuals in the company with weak morals and unethical values (Fox, 2003; Kochan, 2002). There are many factors that may influence leaders to behave unethically such as organisational mistreatment (Tepper et al., 2006), lack of ethical culture or ethical climate (Treviño et al., 1998), and poor reward system to support ethical conduct (Ashkanasy et al., 2006).

In contrast, ethical leadership, as defined by Brown et al. (2005), is through a leader who demonstrates normative appropriate conduct via personal action and interpersonal relationships. This leader also promotes good conduct to followers through two-way communication. This definition clarifies two important characteristics of the ethical leader. First, the leader himself/herself must be ethical and practice good conduct. Second, the leader must promote such behaviour and influence others to do the same.

Prior empirical research suggests that an ethical leader is not only concerned about employees but also other stakeholders, such as customers, suppliers, owners of companies, the natural environment, and society (Frisch & Huppenbauer, 2014). On the other hand, Brown and Treviño (2006) suggest that agreeableness, conscientiousness, moral reasoning, and locus of control are some of the antecedents of ethical leadership. Other researchers also suggest other criteria such as moral identity (Mayer et al., 2012; Skubinn & Herzog, 2016), emotional stability (Kalshoven et al., 2011), moral emotions (Brown & Mitchell, 2010), and moral reasoning (Eisenbeiss, 2012).

Based on this, a board's ethical commitment can be described as the duty and responsibility of the board, including its obligation and effort toward the development and implementation of any kind of ethical activities, awareness, process, implementation, and compliance not only for the company but also for the directors. This study posits that the performance of the company, including ethical performance, is the responsibility of the directors, as they have the authority and resources in determining, guiding, and setting the company's direction.

2.3. Legitimacy theory

This theory suggests that a company will actively seek ways to ensure its activities and existence are acceptable to the stakeholders, especially to the stakeholders whose actions and claims have potential effects on the company (Phillips, 2003). When the company's values are congruent with the values of the society in which it operates, the company is said to have achieved its organisational legitimacy (Dowling & Pfeffer, 1975). For example, the company needs to fulfil the demand of the shareholders and lenders because of their direct investment and association with the company.

Based on this argument, this study uses legitimacy theory to explain the association of board ethical commitment and corporate performance, because this theory suggests the existence of a social contract between a company and stakeholders, which represents society's expectations of a company (Deegan & Unerman, 2011). Suchman (1995) defined legitimacy as a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions. In this circumstance, a critical factor of legitimacy is an organization's performance in accordance with societal expectations (Rindova et al., 2005). Thus, a company is obliged to fulfil the "expected contract" by meeting the demands of society to ensure its own business survival. In the context of this study, companies need to comply and disclose information on ethical practices when it is required by the local corporate governance code and the public at large. Breaching this contract will threaten the survival of the company, i.e., resulting in a reduction of demand from its customers, removal of a director by the shareholders, and fines by the regulator. Due to this, a company will, for example, voluntarily disclose information on its activities if the company perceives that these activities are expected by society (Deegan, 2002; Nurhayati et al., 2016).

3. RESEARCH METHOD

This research employed face-to-face semi-structured interviews with directors in order to obtain richer information on the current practices of board ethical commitment in a company, which may not be found in other secondary resources such as annual reports, company websites, press releases, and other archival documents. This method is selected because the researcher is involved in the real environment, and this participation often reveals surprising findings, which are rare in academic literature (Parker, 2003). Furthermore, this method requires the researcher to get close to the subject, which is, in this context, the directors, in order to provide clearer empirical evidence and present a deeper understanding of the issues of interest, board ethical commitment, to the study (Ahrens, 2008). In addition, it is easier to get information by directly approaching the director, to determine his or her commitment to ethics implementation in the organisation. Two-way communication in the interview allows the researcher to obtain valuable feedback and views on these matters. Besides, the interviewer can adapt the questions as required during the interview itself, clarify if there is any doubt, and ensure the answer or response by the interviewee is correctly understood by the researcher. This can be done by repeating and paraphrasing the questions and answers.

In this study, the same interviewer or researcher was responsible for conducting all the interviews, which ensured that the researcher was able to relate and critically analyse the findings from one interview into another and ensure the interviews were conducted consistently. Interviews were conducted in the year 2016 to 2017 and in terms of time, it ranged from 45 to

60 minutes. The interviews were conducted in English. The majority of the interviewees only permitted note-taking, which is not surprising when considering the sensitivity of the ethical issues under research.

The interview process was conducted in seven stages, as suggested by Kvale (2007).

Stage 1: Thematizing. The interview or investigation process was formulated while the conception of the themes (board ethical commitment) was clarified.

Stage 2: Designing. The research design was planned; most important was the aim of the design, which was to ensure the intended output or results could be produced. In the context of this study, the aim of the interview was to explore the actual board's ethical commitment practices in a company.

Stage 3: Interviewing. At this stage, the research plan was implemented. The interviews were conducted based on the guide prepared earlier. A reflective approach was adopted, in which if new knowledge or information was discovered, the interview scope would be extended to elicit richer information.

Stage 4: Transcribing. Here, the interview materials were prepared for comprehensive analysis. In this study, all the important points that were previously recorded were fully transcribed. If recording materials were not available or permitted, the complete reconstruction of field note-taking was arranged in order of the questions asked.

Stage 5: Analyzing. The materials prepared in previous stages were analysed using appropriate analysis methods and techniques based on the purpose and aim of the study decided.

Stage 6: Verifying. this study examined the validity, reliability, and generalisability of the findings from all the interviews.

Stage 7: Reporting. the findings of interviews conducted in this study together with its technical process were written or communicated.

In analysing the data, this study used discourse analysis. This method is used because this study focuses more on the content of the talk and its subject matter rather than the linguistic organisation (Edwards & Potter, 1992). The analysis also involved a thorough interrogation to highlight similarities, contradictions and exceptions which led to the identification of patterns in the data collected. Some counting will be employed as evidence that a point or response is shared by several respondents. The higher the number, the more credible and significant the findings. NVivo software was used to assist in data analysis. This software is used because it is easy to use, user-friendly and can easily integrated with other types of data.

3.1. Sample selection

Knowing that Malaysian directors are busy with many commitments and under time pressure, this study employed convenience sampling of the directors in its respondent selection. Limiting the scope or pool of potential respondents will potentially result in insufficient respondents necessary to generate meaningful qualitative data analysis. The potential respondents were first identified from the section of *Directors' Profile in the Annual Report* of the company. The respondents were then contacted via the invitation letter sent to their company address. The invitation letter generally provided the purpose and the description of the research, an explanation of how the respondents were selected, information on some ethical issues, and the contact details of the researcher. The preliminary interview questions were attached together with the invitation letter. This gave time for the respondents to prepare their answers to obtain a clear picture of what the interview would involve.

If the director agreed to be interviewed, the time and place of the interview were set based on the most convenient time for both interviewer and interviewee. In this study, all the interviews were conducted in the office of the interviewee during office hours. About 500 invitations were sent to 500 directors of public listed companies throughout Malaysia. As a result, 10 respondents agreed to participate in this research. The number of respondents was considered sufficient because, for qualitative research, the purpose of data collection is to understand the particular situation by obtaining rich data and in-depth understanding. Thus, the issue of sampling number is less crucial as compared with that of quantitative analysis (Bryman & Bell, 2015). This also corresponds with the argument forwarded by Patton (1990), who suggested that there are no black-and-white rules for the determination of sample size in qualitative inquiries. Based on Morse (1994), the minimum sample size for qualitative research design to examine phenomenological issues is six. Thus, the number of interviewees in this study fulfils the requirement as recommended by the scholar.

3.2. Demographic profile of the respondents

Respondent profiles are shown in Table 1. To ensure anonymity, the names of the respondents and their companies were removed. The respondents were assigned identifier-based numbers, i.e., R1 indicates Respondent 1, R2 indicates Respondent 2, and so forth. Table 1 shows that the majority of respondents were more than 40 years old, with the oldest director being 82 years old. All of them had more than 15 years of working experience, with R9 having more than 45 years of working experience. However, three of the respondents had less than 10 years of experience as a director, while the rest (six respondents) had already been sitting on board directorships for a minimum of 10 years.

In terms of the number of directorships, a majority sat only between one and two in the company's board of directors. One director sat in 10 directorships in non-public listed companies, while another had six directorships. Besides, three of the respondents held executive director positions in the company, while two were non-executive directors, and one was an independent non-executive director. Nevertheless, only one director held both executive and non-executive director positions in different public listed companies.

As far as educational background is concerned, a majority of the respondents had post-graduate qualifications, with two directors holding a Doctor of Philosophy (PhD), four having Masters of Business Administration, two were Bachelor's degree graduates, and one having accounting professional qualification. In terms of gender, only one respondent was a female, while the rest were males.

Table 1. Profile of the respondents

Respondents	*Age*	*Years of working experience*	*Years of working as a director*	*Company's directorship*					*Highest qualification*	*Gender*
				PLCs	*Non-PLCs*	*ED*	*Non-ED*	*INED*		
R1	45	24	4	1	-	-	-	-	Master of Business Administration	Male
R2	39	15	4	-	1	-	-	-	Bachelor of Business Studies	Male
R3	63	40	27	1	3	4	-	-	Master of Business Administration	Male
R4	61	30	15	2	-	1	2	-	Master of Business Administration	Male
R5	46	15	10	2	6	-	6	-	Bachelor of Engineering / Bachelor of Laws	Male
R6	45	20	ND	13	-	-	-	-	Certified Public Accountant	Male
R7	ND	30	5	1	-	1	-	-	ND	Male
R8	56	32	11	1	-	-	1	-	Doctor of Philosophy	Male
R9	82	45	23	1	1	-	-	1	Doctor P of Philosophy	Male
R10	64	30	20	1	10	1	-	-	Master of Business Administration	Female

Note: PLCs — Public listed companies; Non-PLCs — Non-public listed companies; ED — Executive director; Non-ED — Non-executive director; INED — Independent non-executive director ND — Information is not provided.

4. FINDINGS AND DISCUSSION

4.1. Responsibility to create ethical culture of the company

The first issue of this study is the responsible person(s) or parties to establish good and positive ethical environments and practices in the company. Seven respondents (R2, R3, R4, R5, R8, R9, and R10) suggested the board of directors was the responsible entity to ensure good ethical conduct was followed and observed by all the officers and employees in the company. R10, for example, concurred:

"*They (board of directors) need to walk the talk, and provide a top-down approach of leadership by example. Then, the downline will properly execute the instruction from the top management*" (R10, personal communication, January 2016).

This shows that, as the top decision-maker of the organisation, the board of directors had a huge responsibility in ensuring good ethical practices were cultivated in the company. This is in agreement with Schwartz et al. (2005), who posited that directors set the tone for the company and are expected to responsibly navigate the company toward better ethical conduct and, hence, the company performance. In fact, Bursa Malaysia (2012) also suggested that ethical leadership begins with the board of directors. Other than that, Brown et al. (2005), too, advocated that an ethical leader must demonstrate normative behaviour via personal action and promote good conduct to his/her followers. This is consistent with the opinion given by R9:

"*Board of directors. They need to monitor closely the management*" (R9, personal communication, January 2016).

The answer given by R9 implies that the responsibility to maintain moral conduct did not stop at directors only but extended to ensure that management also behaves the same. Arguably, it is no use for directors only to behave in a good manner; they must also remain aware of the behaviours and actions of the management, particularly if an executive abuses power to enrich him or herself. The inability of the directors to oversee and govern a company generally and management particularly can be considered a fiduciary failure that may lead to a company's collapse. Enron's board of directors, for example, witnessed numerous questionable practices such as high-risk accounting investments and practices, unfair dealing due to inappropriate conflicts of interest, extensive inadequate disclosure of substantial off-the-books liabilities, and disproportionate executive compensation via excessive annual bonuses and irrational performance unit plans. Unfortunately, the board chose to maintain silence (Brooks & Dunn, 2017) which contributed to the immoral and unethical culture of the company (Nawawi & Salin, 2019).

This is inconsistent with the general rules of thumb of a director's fiduciary duties, as stated in most corporate laws, in which to act in good faith, with reasonable care and in the best interest of the company and its shareholders. In the Malaysian context, the MCCG clearly states that one of the responsibilities of the board is to oversee the conduct of the company business by monitoring the performance of the management to determine whether the business is being properly managed. The board must ensure measures are in place with which management's performance can be assessed.

The next important person to be held responsible concerning the ethical conduct of the company is the top manager (R4, R5, R9, and R10); more specifically, the chief executive officer or chief executive officer (CEO) (R1, R6, and R8). In essence, the CEO provides a role to support the implementation, as well as to lead his/her team of management to execute any ethical code and guidelines outlined by the board of directors. This also is one of the reasons why separation of power between the chairman and CEO of a company helps to alleviate too much concentrated power and authority in a single person. R8 depicted:

"*Board of directors creates the rules and guidelines, while monitoring its implementation should be done by the chief executive officer*" (R8, personal communication, January 2016).

Harrison (2017) claimed that business ethics help managers make decisions based on sound and

moral principles. Many empirical researchers show the important role played by the CEO in executing the strategies established by the board of directors. Hence, CEO compensation needs to be aligned with corporate performance (Ntim et al., 2015; Lo & Wu, 2016); thus, the actions taken by the CEO would not deviate from the corporate and ethical objectives set by the company.

While it is clear that the board of directors is the most important entity in establishing good ethical culture in the company, the next question is the avenue and means of the board of directors to develop and establish a good ethical culture in the company. Five respondents (R2, R3, R4, R5, and R8) agreed that directors need to institutionalise ethical values in the daily working culture and atmosphere of the company. R2 suggested how the board could establish good ethical culture:

"*By institutionalising the core values, we incorporate them into our policies, systems, processes, and procedures*" (R2, personal communication, January 2016).

It means that ethics and moral values should be established as a convention and become the norm in the company's culture; accepted, used, and practiced by the people in the company. This can be done by establishing a practical, comprehensive, and multifaceted framework for ethical decision-making. There are many ethical theories and philosophies, e.g., utilitarianism, consequentialism, deontological, virtue ethics, etc., which can be used as sources of guidance. Apart from that, various universal moral standards such as trustworthiness, respect, responsibility, fairness, caring, and citizenship can be applied during the code of ethics development, i.e., code content, code creation, code implementation and code administration (Schwartz, 2002). In addition, an easy tool for ethical reasoning and ethical decision-making such as a stakeholder impact analysis is valuable to assist a company and its employees in solving an ethical dilemma. These tools take into account any potential impact (financial and non-financial) on the various stakeholders of the company when making decisions.

The other approach to how ethics could be institutionalised in a company is by creating a code of ethics and conduct. This is one of the internal mechanisms that can be taken by the company for preventing, detecting, and reporting criminal conduct (Austin, 1994). Many prior studies showed that a business code of ethics effectively influences positive behaviour in organisations (Valentine & Barnett, 2003; von der Embse et al., 2004). However, its establishment would become insufficient without proper enforcement and implementation. R3 explained:

"*Code of ethics and good conduct must be drawn up, well-publicised, and enforced fairly*" (R3, personal communication, January 2016).

R4 also provided a similar opinion:

"*To establish a code of ethics, emphasis, implementation, and enforcement are vital to all levels of employment*" (R4, personal communication, January 2016).

Baker et al. (2006) and Somers (2001) recommended that proper implementation of codes of ethics will positively influence job satisfaction and organisational commitment and, hence, improved productivity. This situation will contribute to better corporate performance (Donker et al., 2008; Chun et al., 2013). The code of ethics can be properly implemented when there is sufficient training, support, and reinforcement. For example, the company must ensure employees not only receive and have a copy of the company's code of ethics but also properly comprehend the code. The employees also need to declare they understand the code and pledge to comply with it, thus no excuses for any incompliance in the future. In addition, support channels such as an ethics hotline, FAQs (frequently asked questions), and mandatory annual training should be put into practice. Any code violation will be subject to disciplinary action, while a severe code breach such as fraud, corruption, and deception will be referred to a higher external authority such as the police or anti-corruption agency.

Next, in terms of the type of directors, two respondents, R8 and R10, explicitly expressed the role of executive directors in this issue. R10, for example, described:

"*An executive director is the most important person who makes decision(s) daily. They deal with day-to-day practices to ensure ethics is implemented*" (R10, personal communication, January 2016).

R8 confirmed this statement:

"*Executive directors are responsible to execute and implement the ethical policies*" (R8, personal communication, January 2016).

This indicates that the responsibility to embed ethics in the culture and environment of the company lies mainly on the shoulders of the executive directors, based on their position that is directly involved in the operation and a huge amount of time spent in the company. They are also responsible for managing the lower level of management and employees, developing and executing the business plans, corporate objectives, performance targets, and long-term goals of the business. In addition, they also have substantial authority to manage and conduct the company on behalf of the shareholders (Pass, 2004). Based on this, the executive director is the most suitable person in the company to carry out this role and responsibility.

4.2. Importance of ethics to sustain the performance of a company

The other issue raised during the interviews was the importance of ethics in sustaining the good performance of a company. Prior study shows that corporate value and ethics positively correlated with firm performance (Kumarasinghe et al., 2021; Donker et al., 2008). In this study, the most important reason given by the respondents on how ethics are able to sustain the performance of the company is trust from various stakeholders. Five respondents (R3, R4, R5, R9, and R10) highlighted this factor:

"*Maintain reputation* [...] *positive engagement with stakeholders*" (R3, personal communication, January 2016).

"*When customers perceive that a company is exhibiting important ethical business practices, a high level of trust can develop between the business and the people it seeks to serve. A relationship of trust*

between you and the customers is part of the factors to determine the company's performance" (R4, personal communication, January 2016).

"*Without confidence in the board's ethics, there cannot be confidence in the company*" (R5, personal communication, January 2016).

"[Ethics is] *important especially for the long term to get trust and public investment in the company*" (R9, personal communication, January 2016).

"*Ethics is important in long term to gain trust from people*" (R10, personal communication, January 2016).

In this context, trust from customers has been noted as important because trust develops loyalty among customers and, in turn, establishes business bonding between the customers and the company (Luo & Bhattacharya, 2006). This relationship is a critical element in maintaining successful sales (Swan et al., 1999) and has been identified as a key driver for value creation (Walter & Ritter, 2003), hence, generating revenue for the company. In contrast, low ethical consumerism and product responsibility such as poor emphasis on customer value, safety, quality, information, advertisement, and warranty may cost the support from the customers (Buchholtz & Carroll, 2012; Brooks & Dunn, 2017). This argument was supported by R10, who claimed that ethics in business were associated with assurance of product deliverables as expected by the customers. R10 even suggested that trust was far more essential than product brand because, without trust, a brand cannot be established:

"*Branding itself is insufficient to get money. Product must perform as specified to gain trust from customer*" (R10, personal communication, January 2016).

The other important stakeholder, where trust has to be maintained, is the supplier. Trust gained from suppliers is crucial because it enforces higher levels of cooperative behaviours and flexibility in coordinating activities (Johnston et al., 2004). It is a trend nowadays that corporations are moving from adversarial supplier relationships to a more intimate partnership model. This is because the company and its suppliers are mutually dependent on each other. Suppliers rely on a company to receive orders to ensure they exist in business, while a company relies on the supplier to provide it with the required product and services to carry out a smooth operation. Thus, the supplier also has some level of ethical rights that need to be respected by the company such as a decent and clear contract, a fair deal, and a reasonable level of treatment or loyalty (Crane & Matten, 2016).

R10 gave an example that, in the construction industry, where R10's company operates, prompt payment to suppliers is crucial to ensure that construction materials and equipment are delivered on time with the right quality and sufficient quantity. Delayed payment not only jeopardises the construction schedule, but it generates hesitancy among those who wish to continue dealing with the organisation. According to R10:

"*Ethics is important in the long term to gain trust from people. If organisations do not deliver as promised, people* [suppliers] *will not have confidence in the company*" (R10, personal communication, January 2016).

Another respondent, R9, viewed trust from the perspective of financing. He opined that:

"[Ethics is] *important, especially for the long term to gain trust and public investment in the company*" (R9, personal communication, January 2016).

Apparently, shareholders occupy the highest position and become the central importance in the corporations. As shareholders who own the company's shares, they also become an owners and have a big stake in how well the company performs. Moreover, it is no secret that public financing, such as shareholding, has been found to be the lowest cost of financing as compared with loan financing, which carries higher interest costs and premiums (Mazumdar & Sengupta, 2005). Thus, via public financing, the interest saving and lower leverage on the capital structure of the company will indirectly contribute to a better profit margin and, hence, the monetary performance of the company. Due to this, a company needs to carefully manage the interests of its shareholders to ensure all their rights are properly fulfilled.

The other important reason why ethics is important is that it ensures regulatory compliance (R1 and R3) and safeguards the company's reputation (R2 and R3). Ethics is generally practicing good deeds that are above and beyond rules and regulations. If a company ensures that good ethical behaviour is practised by its employees, indirectly, the company also could make certain that all codes of law are adhered to by the employees. Lawrence and Weber (2011) posit that a company's culture and ethical climate tend to shape the attitudes and actions of the employees, resulting in high ethical behaviour. This can be done by implementing a comprehensive and multifaceted ethics program, which promotes ethical behaviour at work and discourages unethical actions and illegal acts by employees that may result in serious financial losses. Treviño et al. (1999) found that effective ethics management results in a reduction of illegal behaviour in the organisation. Furthermore, R1 and R3 asserted that:

"*Ethics represents integrity. Integrity ensures compliance and transparency*" (R1, personal communication, January 2016).

"[Ethics is important for …] *regulatory compliance*" (R3, personal communication, January 2016).

Reputation is the other factor, as a good ethical company is always associated with good and respectable corporate esteem value (Roberts & Dowling, 2002). A firm's reputation is a valuable intangible asset, as it influences a company's relationship with its stakeholders (Mahon, 2002). Good reputation encourages repeat purchasers by customers and retains human capital to spur productivity and, hence, increase profitability (Lawrence & Weber, 2011). Prior corporate scandals, e.g., Enron and its auditors, Arthur Andersen, demonstrate the importance of reputation for the corporate entity because, with a negative reputation, the investor and the public will typically disconnect any business and nonbusiness relationships with a company. Consequently, a company would fail to generate revenue and, after that, go into liquidation. R2 acknowledged that:

"*Ethics is one of our important core values where we believe unethical behaviour may damage our reputation and profits could fall as a result*" (R2, personal communication, January 2016).

The findings from this interview show that trust, regulatory compliance, and good reputation explain why directors are committed to implementing good ethical practices in their organisations and, hence, contribute to the sustainable performance of the company.

5. CONCLUSION

The purpose of the study is to help one understand a director's responsibility in creating a good ethical culture in his or her organisation and to examine whether good ethical practices are able to enhance a company's performance. The analysis of the qualitative data found that directors appreciate a board's ethical commitment as an important element in sustaining the good performance of a ompany. The planning and monitoring of these ethical practices are the responsibility of the board of directors, which then will be executed by the top management, led by the CEO. To ensure effectiveness, the code of ethics should not merely be a statement of intent but must be institutionalised and embedded into the company's working environment. If properly implemented, good ethical practices can be a powerful mechanism in which to sustain performance. Trust, regulatory compliance, and good reputation are among the benefits derived if a company engages in good ethical practices.

This study offers several implications. First, this study confirms the legitimacy theory, which suggests that a company generally and directors specifically will actively seek ways to ensure its activities and existences are acceptable to the community. Second, the policymakers and regulatory authorities need to enhance their efforts in promoting good ethical practices to public listed companies. More explanations also are needed in order to provide a positive impact of good ethical practices such as through reputation, attractiveness to foreign investors, and favourable image in the eyes of shareholders and the public that help a company to survive in business. Finally, practitioners such as directors and top management need to provide a good leadership example to the employees of the company. This can be done via the establishment of a code of ethics for the directors, along with a code that binds not only the employees but any entities that have business transactions with the company. The code also needs to be properly enforced with good promotion and explanation, is easily available to everybody, and is supported with transparent mechanisms for disciplinary action for those who do not comply with the code or violate ethical practices.

This study only is able to conduct a limited number of interviews due to the tight schedule of the respondents (directors) and their reluctance to participate in the study. Limitations associated with interviews such as response and non-response bias also apply to this study. The sensitive nature of the subject matter of the study could lead to response and nonresponse bias, although steps have been taken to ensure questions are objectively phrased.

For future research, it is suggested that a higher number of respondents for the interviews can be recruited and not limited only to directors but also include a top management team such as CEO, chief financial officer, and chief compliance officer. In addition, middle and lower level of management also can be included. A higher number of respondents, and from different positions, can provide the study with richer information and views from more diverse and wider perspectives. The number of questions or issues discussed also can be raised, so that more issues on ethics can be analysed. For example, the questions can be contextualized from the perspectives of historical, social, political, and cultural of Malaysia that unique and comprise different races and religions. Besides, other methods of data collection (e.g., survey) can be employed to directly collect data from the company. This is useful, particularly for the information on the ethical practices that cannot be extracted from the public domain such as the annual report and website of the company.

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