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**ETHICAL STANDARDS AND FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS: PERCEPTIONS OF EMPLOYEES OF KITUI COUNTY TEXTILE CENTER (KICOTEC), KENYA.**

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**Abstract**

*The purpose of the study was to investigate the effects of ethical standards on financial performance of manufacturing firms. The study objectives were; to examine the effects of team-work standards, commitment standards, and accountability standards on financial performance of Kitui County Textile Centre (KICOTEC). Financial performance was perceived in terms of growth in sales, growth of market share, return on assets and profitability. The study was anchored on three theoretical foundations: Utilitarian Moral Theory of Ethics, A Virtues Ethical Theory and Deontological Ethical Theory. Review of empirical literature revealed research gaps which included the need to evaluate and compare the effects of ethical standards on different sectors, counties and regions in order to have a cross cultural view and also pave way for comparisons. The research design was a case study of Kitui County Textile Centre (KICOTEC) in Kenya. The target population was middle and top level managers of KICOTEC. Simple random sampling was used to identify 4 managers and 11 supervisors as the sample. Data collection instruments were close ended and open-ended questionnaires. The researcher used the Statistical Package for Social Sciences (SPSS) to generate descriptive statistics of the study variables and findings were presented in tables. The study established that employees held the view that accountability standards have the greatest effect on financial performance at 90.1% followed by team-work standards at 87.9% while commitment standards rank third at 86.8%. This study recommends that start-up manufacturing firms should develop ethical standards to guide their operations so as to be assured of enhanced financial performance and more emphasis should be on accountability, commitment and teamwork standards in that order. The researcher recommends that these findings should be tested further not only among start-up and established manufacturing firms in various cultural settings, but also among service companies.*

**Key Words:** Ethical Standard, Financial Performance, Kitui County, Kitui County Textile Center.

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## 1.0

### 2.0 Introduction

Manufacturing firms play a big role in the Kenyan economy; they create job opportunities and boost the country's Gross Domestic Product (GDP). In the 2017/2018 financial year manufacturing firms accounted for 14% of the GDP growth in Kenya. Over the years, the term ethics in financial performance has long been associated with management scholars and business leaders around the world. There is a broad agreement around the world that as a matter of corporate policy, every organization strives to be committed in a manner that is ethically transparent. Kehinde (2010) argued that ethics in the world of organization's business involves "ordinary decency" which encompasses such areas as integrity, honesty and fairness. Behaving in an ethical manner is seen as part of the social responsibility of the organization, which itself depends on the philosophy that organizations ought to impact the society in ways that goes beyond the usual profit maximization objective (Adenubi, 2000). Therefore, for an organization to move forward in the aspect of performance, it is important for such an organization to have a good understanding of ethics and also take it seriously as this can undermine the competitive strength of the organization and the society at large.

This study was motivated by the need to establish the effects of ethical standards on financial performance of Kitui County Textile Centre (KICOTEC). KICOTEC is a new garment factory established in 2018, located at Syongila market about 4km from Kitui town along the Kitui- Nairobi highway

in South Eastern region of Kenya. It is the first ever garment factory by a County Government in Kenya. The factory is modeled on the Export Processing Zone (EPZ) garment industrial unit where it runs on 24hours on different working shifts. The broad objective of the study was to examine the influence of ethical standards on financial performance of manufacturing firms. Specific objectives of the study were:

- i. To determine the effects of team-work standards on financial performance of KICOTEC.
- ii. To determine the effects of commitment standards on financial performance of KICOTEC.
- iii. To determine the effects of accountability standards on financial performance of KICOTEC.

### 2.0 Literature Review

#### 2.1 Theoretical Foundations

This study was anchored on three theories: Utilitarian Moral Theory of Ethics, A Virtues Ethical Theory and Deontological Ethical Theory:

##### 2.1.1 Utilitarian Moral Theory of Ethics.

This is a well-known consequentialist theory of ethics which was formulated by Bentham (1823). The main assumption is that it is consequences of human action that count in evaluating their merit and therefore correct moral conduct is determined solely by a cost benefit analysis of the consequences. An action is morally right if the consequences of that action are more favorable than unfavorable (Moore, 1971). The theory

emphasizes consequences of an action on stakeholders and therefore recognizes that a tradeoff exists in decision making and that an organization should be concerned with making decisions that maximize net benefits and minimize overall harm for all stakeholders (Premeax, 2004).

### 2.1.2 A Virtues Ethical Theory

This theory is associated with Greek philosopher Aristotle (1962) and emphasizes character development rather than the articulation of abstract moral principle that guides actions. It advocates for virtuous actions including wisdom, courage, temperament, justice, fortitude, generosity, self-respect, good temper and sincerity and avoidance of bad character traits such as injustice, insensitivity and vanity. In summary, this theory holds that a person has the moral right to do that which furthers the moral rights of others and does not infringe on the moral rights of others (Schumann, 2001).

### 2.1.3 Deontological Ethical Theory

This theory is also known as duty-based theory and holds that we have moral duty to one self and others and also our actions that are done for the sake of duty have moral worth and are part of the fundamental nature. Universal duties include fidelity, gratitude, justice, beneficence and self-improvements (Cavanagh, Moberg, & Velasquez, 1981). Therefore, this theory emphasizes that employees should intuitively know their duties and are expected to execute them for the benefit of the organization.

## 2.2 Empirical Review

A study done by Bruno & Mark (2017) shows that bringing a group of highly skilled individuals together is not sufficient for teams to be effective. Rather, team members need to work well together in order for the teams to successfully achieve its purpose. These findings imply that teams can be improved via teamwork training and team work standards. A study done by Kayla (2011) shows that much of the manufacturing and production that, in the past, was done by hard working and dedicated employees, have been sent overseas. This shift in American industry has had an impact on the commitment employees feel towards their organizations hence employees need to re-assess their commitment to a company in order to take the necessary steps towards a more secure job in future for themselves. These findings imply that increased commitment levels among employees leads to enhanced financial performance of organizations. Romzek & Dubrick (2000) conducted a study seeking to find out how public accountability can effectively influence key decisions in public sector organizations. The researchers argue that for accountability to be more effective it has to be calibrated to task requirements. The study also shows that public accountability is of crucial importance as it aims to ascertain appropriate decisions in an organization setting which leads to quality operations and ultimately high financial performance.

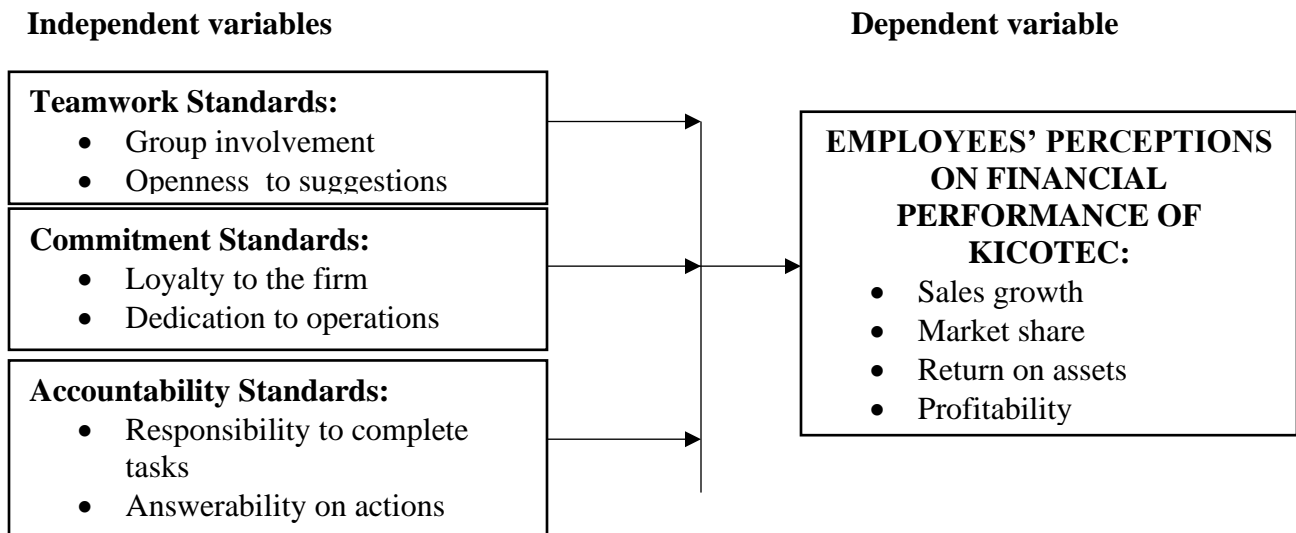
A study done by Tebogo & Renier (2016) showed that profitability, sales growth and return on assets are the most preferred accounting based financial measures of financial performance. Apart from financial

performance, organization success also relates to employees' skills level, personnel development, quality of strategic planning and the ability to understand and adapt to the nature and dynamics of the business environment (Carvalho, 2016). However, financial performance is arguably and the most important indicator of organizational success and one of the most important variables in management research (Stegerean & Gavrea, 2010). Researches done on effects

of ethical standards on financial performance mostly focus on already developed companies. This study focuses on a start-up manufacturing firm in Kitui County, Kenya with a view to compare findings with those of already developed manufacturing companies in other geographical locations with different cultural settings.

### 2.3 Conceptual Framework

**Figure 2.1 Conceptual Framework**



**Source:** Ratemo (2019)

### 3.0 Research Methodology

The researcher used descriptive design to come up with detailed explanations on the effects of ethical standards on financial performance of Kitui County Textile Centre (KICOTEC). The target population was 50 employees comprising of group leaders and management. Simple random sampling

technique was used to arrive at a sample of 4 managers and 11 group leaders. This constituted 30 % of the target population. The primary source of data was questionnaires. Secondary source of data were company reports, documents and journals. Drop and pick later method was used to administer the questionnaires. Data analysis was aided by SPSS using descriptive statistics including

mean and percentiles. Tabular method was used to present the findings.

#### 4.0 Data Analysis, Findings and Presentation

The findings on specific objectives were interpreted using the mean and percentages:

The overall response rate was 86.67% consisting of 4 managers and 9 group leaders.

#### 4.1 Effects of Teamwork Standards on Financial Performance of KICOTEC:

**Table 4.1 Effects of Teamwork Standards on Financial Performance of KICOTEC:**

	SA%	A%	N%	D%	SD%	
Group suggestions on operations and production activities has led to increase in sales	30.8	69.2	0.0	0.0	0.0	
Sales suggestions by group members has led to better sales strategies leading to sales growth	23.1	69.2	7.7	0.0	0.0	
Group participation in marketing activities has led to increase in market share	15.4	69.2	15.4	0.0	0.0	
Management's involvement in group activities has led to quality decision making on products brand thus increase in sales growth	30.8	61.5	0.0	7.7	0.0	
Employees participation in group activities has led to sales growth thus increase in return on assets	23.1	61.5	0.0	7.7	7.7	
Suggestions on products quality has boosted the firm's profitability	15.4	61.5	7.7	0	15.4	
Suggestions from customers about the products quality has led to improved products quality leading to increase in sales growth	30.8	53.8	0.0	15.4	0.0	
<b>MEAN</b>	<b>24.2</b>	<b>63.7</b>	<b>4.4</b>	<b>4.4</b>	<b>3.3</b>	<b>100</b>

From the findings in Table 4.1 above; 30.8% of the respondents strongly agreed and 69.2% of the respondents agreed that group suggestions on operations and production activities has led to increase in financial

performance of KICOTEC. None of the respondents was not so sure or disagreed with the statement. 23.1% of the respondents strongly agreed and 69.2% of the respondents agreed that sales suggestions by group

members has also led to better sales strategies which in turn has led to tremendous increase in sales growth while 7.7% of them were not so sure. Group participation in marketing activities has led to increase in market share of KICOTEC was strongly agreed and agreed by 15.4% and 69.2% of respondents respectively. 15.4% of the respondents were not so sure of the statement. Management's involvement in group activities has led to quality decision making on products brand thus increase in sales growth which in turn has led to improvement of financial performance of KICOTEC as strongly agreed and agreed by 30.8% and 61.5% of the respondents respectively. 7.7% of the respondents disagreed with the statement.

Employees' participation in group activities has led to increase in sales growth thus increase in return on assets was strongly agreed and agreed by 23.1% and 61.5% of the respondents respectively. 7.7% of the respondents disagreed and 7.7% strongly

disagreed with the statement. On whether suggestions on products quality have boosted the firm's profitability, the statement was strongly agreed by 15.4% and agreed by 61.5% of the respondents. 7.7% of the respondents were not sure if profitability has any effect on financial performance while 15.4% of the respondents strongly disagreed with the statement. Suggestions from customers about the products quality has led to improved products quality leading to increase in sales growth. 30.8% of the respondents strongly agreed and 53.8% agreed. 15.4% of the respondents disagreed.

Overall, 24.2% of the respondents strongly agreed that teamwork standards have influence on financial performance (sales growth, market share, return on assets, profitability) of KICOTEC, 63.7% of the respondents agreed, 4.4% of the respondents were neutral while 4.4% and 3.3% of the respondents disagreed and strongly disagreed respectively.



#### 4.2 Effects of Commitment Standards on Financial Performance of KICOTEC:

**Table 4.2 Effects of Commitment Standards on Financial Performance of KICOTEC:**

	SA%	A%	N%	D%	SD%	
Consistent dedication by employees on the firm's operations has led to increase in sales	46.2	53.8	0.0	0.0	0.0	
Strong work commitment by employees has boosted the firm's overall market share	38.5	61.5	0.0	0.0	0.0	
Management's commitment on organization activities has led to increase in productivity thus growth in sales	15.4	61.5	23.1	0.0	0.0	
Loyalty to the firm by employees and the management has led to increase in the productivity thus profitability due to high sales	15.4	61.5	15.4	7.7	0.0	
Devotion of employees to their respective jobs has led to increase in the firm's production thus high sales which has led to increase in market share	7.7	76.9	15.4	7.7	0.0	
Consistency in production of products has led to increase in sales thus increase in firm's profitability	38.5	46.2	0.0	0.0	15.4	
Management's commitment towards their responsibilities in the firm has led to increase in productivity thus growth of the firm's sales	15.4	69.2	7.7	0.0	7.7	
<b>MEAN</b>	<b>25.3</b>	<b>61.5</b>	<b>7.7</b>	<b>2.2</b>	<b>3.3</b>	<b>100</b>

From the findings, consistent dedication by employees on the firm's operations has led to increase in sales of KICOTEC was strongly agreed by 46.2% and agreed by 53.8% of respondents. None of the respondents disagreed with the statement. Strong work commitment by employees has boosted the firm's overall market share which in turn has led to improvement of financial performance of KICOTEC was strongly agreed and agreed by 38.5% and 61.5% respectively. Management's commitment on organization activities has led to increase in productivity

thus growth in sales which has positively affected financial performance of KICOTEC was strongly agreed and agreed by 15.5% and 61.5% of respondents respectively. 23.1% of the respondents were not sure of the statement.

Loyalty to the firm by employees and the management has led to increase in the productivity thus profitability due to high sales: This statement was strongly agreed and agreed by 15.4% and 61.5% of respondents respectively while 15.4% had a neutral view

and 7.7% disagreed. Devotion of employees on their respective jobs has led to increase in the firm's production thus high sales which have led to increase in market share which has positively influenced financial performance of KICOTEC. 7.7% and 76.9 % strongly agreed and agreed respectively with the statement while 15.4% were not so sure and 7.7% completely disagreeing with the statement. 38.5% of the respondents strongly agreed and 46.2% agreed that consistency in production of products has led to increase in sales thus increase in firm's profitability while 15.4% of them strongly disagreed with the statement. Management's commitment towards their responsibilities in the firm has

led to increase in productivity thus growth of the firm's sales: 15.4% of respondents strongly agreed and 69.2% agreed with the above statement while 7.7% had a neutral view. 7.7% strongly disagreed.

Overall, 25.3% of the respondents strongly agreed that commitment standards have influence on financial performance (sales growth, market share, return on assets, profitability) of KICOTEC, 61.5% of the respondents agreed, 7.7% of the respondents were neutral while 2.2% and 3.3% of the respondents disagreed and strongly disagreed respectively.

### 4.3 Effects of Accountability Standards on Financial Performance of KICOTEC

**Table 4.8 Effects of Accountability Standards on Financial Performance of KICOTEC:**

	SA%	A%	N%	D%	SD%	
Employees ability to complete their given tasks has led to increase in production levels leading to increase in sales thus increase in the market share	46.2	46.2	7.7	0.0	0.0	
Management initiation of change on sale strategies and execution of the change has led to increase in sales growth	15.4	76.9	7.7	0.0	0.0	
Employees' acceptance of their responsibilities has boosted production thus increase in sales	38.5	46.2	15.4	0.0	0.0	
Management's ability to govern its products sales has led to increase in sales growth	38.5	53.8	0.0	7.7	0.0	
Management's ability to govern its products markets has led to increase in market share leading to increase in profitability	15.4	69.2	0.0	7.7	7.7	
Management's ability to govern its employees leads to increase in production of goods hence increase in sales growth	38.5	53.8	0.0	7.7	0.0	
Employees answerability on their actions has led to quality improvement of the products hence increase in market share	38.5	53.8	7.7	0.0	0.0	
<b>MEAN</b>	<b>33.0</b>	<b>57.1</b>	<b>5.5</b>	<b>3.3</b>	<b>1.1</b>	<b>100</b>



From the findings, employees' ability to complete their given tasks has led to increase in production levels leading to increase in sales thus increase in the market share of KICOTEC was strongly agreed by 46.2% and agreed by 46.2% of respondents. 7.7% had a neutral view of the above statement while none of the respondents disagreed with the statement. Management initiation of change on sale strategies and execution of the change has led to increase in sales growth of KICOTEC was strongly agreed and agreed by 15.4% and 76.9% respectively. 7.7% had a neutral view on the statement.

Employees' acceptance of their responsibilities has boosted production thus increase in sales of KICOTEC was strongly agreed and agreed by 38.5% and 46.2% of respondents respectively. 15.4% of the respondents had a neutral view on the statement. Management's ability to govern its products sale has led to increase in sales growth. This statement was strongly agreed and agreed by 38.5% and 53.8% of respondents respectively while 7.7% disagreed. Management's ability to govern its products markets has led to increase in market share leading to increase in profitability of KICOTEC: 15.4% and 69.2% strongly agreed and agreed respectively with the statement while 7.7% disagreed and 7.7% of the respondents strongly disagreed with the statement. 38.5% of the respondents strongly agreed and 53.8% agreed with the statement that management's ability to govern its employees has led to increase in production of goods hence increase in sales growth while 7.7% of them disagreed with the statement. Employees' answerability on

their actions has led to quality improvement of the products hence increase in market share: 38.5% of respondents strongly agreed and 53.8% agreed with the above statement while 7.7% had a neutral view.

Overall, 33% of the respondents strongly agreed that accountability standards have influence on financial performance (sales growth, market share, return on assets, profitability) of KICOTEC, 57.1% of the respondents agreed, 5.5% of the respondents were neutral while 3.3% and 1.1% of the respondents disagreed and strongly disagreed respectively.

## **5.0 Summary of Findings, Conclusion and Recommendations**

The study established that teamwork standards are an important factor in an organization's financial performance and that commitment standards have a great impact on financial performance. The findings also established that commitment standards have a high impact on the financial performance of manufacturing firms.

Based on the study findings, the researcher concludes that there is a general awareness and knowledge of the concept of ethical behaviour at Kitui County Textile Centre. Although there are broad specific policies and procedures within the manufacturing industry to adopt or practice ethical standards; organizations should develop their own policies towards ethical management issues. These would promote commitment and acceptance from the employees since such policies would be developed and advanced from within the organization.

Executive or top leadership should also be engaged in communication of ethical issues to the employees.

The researcher recommends increased education and training on ethics tailored to organizational staffing (departments). Academicians and future researchers would use this study to inform further studies on ethics. The government of Kenya should come up with ethical policies that benefit not only the manufacturing industries but also other industries in the country. These policies must be in line with the organizations' ethical policies and be able to help the organizations improve their financial performance. Industry regulators should also come up with regulations that help organizations to counteract unethical behaviour such as corruption to pave way for adoption of positive ethics such as integrity, teamwork, accountability and commitment.

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