Knowledge Management of Business Ethics in Lithuanian Companies

Sonata Staniulienė, Giedrius Jucevičius and Kristina Grumadaitė
Vytautas Magnus University, Kaunas, Lithuania
sonata.staniuliene@vdu.lt
giedrius.jucevicius@vdu.lt
kristina.grumadaite@vdu.lt

Abstract: The never-ending series of ethical scandals in companies in various industries across the countries show that business ethics problems are not diminishing, so means to develop business ethics need to be sought to better serve the interests of stakeholders and society. As in other areas of management, knowledge and understanding of business ethics need to be developed, knowledge accumulated, transferred and applied, and knowledge management models and processes can be applied to this in societal, associative, organizational, and individual levels. Therefore, the aim of the research is to evaluate business ethics knowledge management in order to suggest for companies relevant business ethics knowledge management solutions. The survey is conducted in the case of Lithuanian companies by the method of a quantitative questionnaire survey of companies’ employees. Although the companies demonstrate a high level of ethical knowledge of how to behave in a business environment, the study reveals some gaps in ethical knowledge management related to a mercantilist approach to knowledge management when business ethics knowledge is developed, consolidated, disseminated and applied when corporate representatives see it’s. benefits. However, there is a lack of systematic knowledge sharing and transparency, knowledge accumulation and understanding of how to put ethical knowledge into business in practice. The study show high importance of moral leadership and leading by example in knowledge management of business ethics.

Keywords: knowledge management, business ethics, knowledge creation, knowledge storage, knowledge transfer, knowledge application

1. Introduction

At first glance, it seems to every employee in the company that it is not difficult to distinguish between what is ethical and unethical when conducting business. In human nature, it is coded to instantly assess and condemn what is good or bad according to the moral norms we have learned from childhood in a way of socializing in different collectives (Mujtaba and Sims, 2006). However, employees rarely begin to question his or her knowledge and beliefs in the context of business ethics until he or she encounters the first ethical dilemma when no one knows the right answer on how to behave appropriately and how to manage to respond to the interests of all stakeholders. As with any subject in business, business ethics must be learned, and companies’ managers must ensure that knowledge of business ethics is managed: ethical knowledge must be created, accumulated, transferred and applied (Winiecki, Catlin and Ackler, 2020) in a systematic, consistent, and transparent manner (Türegün, 2017) to the organization’s employees. Only then managers of the organization can prevent the rise of ethical scandals and ensure a sense of justice for all stakeholders about their business activities processes and results.

Recently a number of studies examines the models of knowledge management (i. e., Abdullah et al, 2005; Alavi and Leidner, 2001; Biloslavo and Zornada, 2013; King and Ko, 2001; Kyoratungye et al, 2009; Lai and Chu, 2000; Okunoye, 2003; Rubenstein-Montano, 2001; etc.). Many researchers analyse business ethics frameworks as well (i. e., Appelbaum et al, 2009; Carter, 2000, Di Lorenzo, 2007; Svensson and Wood, 2004; 2008; etc.), but there is still the lack researchers’ attention to the research of management of company’s ethical knowledge. Due to the mentioned reasons, further research in Lithuanian companies is needed to solve research problem how to manage the knowledge of business ethics in companies.

The aim of the research is to evaluate business ethics knowledge management. It is important in order to suggest for companies relevant business ethics knowledge management solutions, after examining the case of Lithuanian companies.

Research method used in this paper is quantitative method of survey.
2. Theoretical Background

Knowledge management has become important for businesses because it enables organizations to gain a competitive advantage and work effectively through the sharing and systematic complement of knowledge (Abdullah et al, 2005). In business, knowledge management is used to systematically manage information and competence to improve an organization’s responsiveness, innovation, competence, and efficiency (Kyoratungye et al, 2009). According to Bukowitz (1999), knowledge management is the process by which an organization creates value from its knowledge or intellectual capital. Most often, generating value from knowledge involves sharing it among employees, departments, and even with other companies to create best business practices (Kyoratungye et al, 2009). It is clear that knowledge management plays an important role in creating corporate values and norms (Alavi and Leidner, 2001; Le Dinh et al., 2013).

Most authors describe knowledge management as a process consisting of separate sub-processes. Rubenstein-Montano et al (2001) describe a number of knowledge management frameworks, as well as Lai and Chu [2000], pointing out that knowledge management process is integrated based on the content of the process stages and suggest that the process should be divided into seven stages: initiation, generation, modelling, storage, distribution and transfer, use, and retrospective. Kinney (1999) defined knowledge management as the process by which an organization develops, captures, acquires, and uses knowledge to support and improve the performance of the organization. According to Kyoratungye et al, (2009) knowledge management is a management activity that develops, transmits, transfers, accumulates, and applies knowledge in decision-making to achieve organizational goals. Most scholars have identified the following sub-processes to describe the process of knowledge management: knowledge creation, storage, transfer, and application (Alavi and Leidner, 2001; Biloslavo and Zornada, 2013):

- **Knowledge creation** within an organization is a dynamic interaction of knowledge at the individual and social level, when new knowledge is generated in the learning process. Studies by some authors (e.g., Nonaka, 2000) suggest that different forms of knowledge (e.g., open documents, implicit knowledge) should be generated from a variety of internal and external sources.

- **After the process of knowledge creation** new knowledge must be stored for later use in the organization (Alavi and Leidner, 2001). Knowledge storage include ways to transform documents, models, human insights, and other artifacts into forms that facilitate their retrieval and transfer without losing the true meaning of knowledge (Staples et al, 2001). Using IT, organizations strive to embed knowledge about customers, projects, processes, suppliers, competition, technology, industry, and the organization’s own knowledge that can be accessed or transferred.

- **Knowledge transfer** occurs at various levels of an organization, such as among individuals, groups, an organization, and organizations (Alavi and Leidner, 2001). Organizations strive to deliver the right knowledge in a timely manner to where it is needed. This process can be largely supported by ICT, social media (Hansen et al, 1999). Knowledge transfer take place through training programs, informal networks to be applied in the organizational decision-making process (Alavi and Leidner, 2001).

- **Knowledge application** can ensure that an organization’s knowledge is a viable source of competitive advantage. For the available knowledge to be useful to the organization’s stakeholders, it must help to respond their interests and achieve their goals.

The knowledge management framework is widely used by researchers to enable organizations to manage knowledge for the decision-making process in organizations (King and Ko, 2001) in multidisciplinary research (e.g., Le Dinh et al, 2015; Baesens et al, 2016; Wamba et al, 2017). However, it is not easy to obtain, store, interpret, and manage data to turn information into awareness and later into action (Sivarajah et al, 2017), as these processes vary depending on the type of knowledge intellectual capital the organization seeks to improve. Knowledge management processes are socially carried out activities that support individual and collective knowledge and interaction (Alavi and Leidner, 2001). According to Okunoye (2004), organizational variables in knowledge management include norms, shared values, and beliefs that underpin business ethics.

Gottlieb and Sanzgiri (1996), Svensson and Wood (2008), Di Lorenzo (2007), and other researchers raise many important ethical issues related to business. For instance, when it comes to business ethics, pressure from external stakeholders often requires accountability from the company. Thus, businesses are involved in the ethical processes in three main levels of business ethics - systemic order, corporate, and individual levels, also called macro-, meso-, and micro-levels (McDonald and Nijhof, 1999; Karmasin and Litschka, 2008; Horodecka, 2014):
There are different levels of ethical issues in organizations. McDonald and Nijhof (1999) emphasize that in order for meso-level ethical action to be effective, there must be certain theoretical assumptions at both the corporate (meso) and individual (micro) levels. This means that good governance can create an ethically supportive environment and behaviour. Appelbaum et al. (2009) state that the micro-level is considered to be the most important and can influence the development of a sustainable corporate ethical culture in the long run, and other areas are strategically important at the macro-level, but do not necessarily translate into strategic actions with positive and noticeable behavioural effects. On the one hand, business ethics has an external emphasis, given the gap between organisations’ ethical actions and behaviour in their business practices and the market or public perception, on the other hand, corporate ethics has an intrinsic emphasis, given the gap between management’s ethical actions and behaviour and staff perceptions in business practices (Svensson and Wood, 2004). Previous studies have ethically addressed limited parts of this idea in organizations, but not the whole process (e.g., Moberg, 2003; Carter, 2000). By combining business ethics levels and knowledge management models, their respective strengths can be harnessed. Their application is expanded and a synthesis of critical areas in which knowledge management can create processes of thinking and action conducive to the development of an ethical culture and the development of ethical behaviour in companies is presented.

After analysis of the process of knowledge management in the companies and levels of business ethics, raised on the discussion above, the subsequent research hypotheses are developed:

**H1: Ethical business is developed through business ethics’ knowledge creation.**

It is based on the premise that ethical knowledge creation in macro-, meso-, and micro- levels of business ethics can lead to development of ethical business.

**H2: Ethical business is developed through business ethics’ knowledge storage.**

It is grounded by the premise that ethical knowledge storage and accumulation in macro-, meso-, and micro- levels of business ethics can lead to development of ethical business.

**H3: Ethical business is developed through business ethics’ knowledge transfer.**

It is assumed that the transfer of ethical knowledge in macro-, meso-, and micro- levels of business ethics can lead to development of ethical business.

**H4: Ethical business is developed through business ethics’ knowledge application.**

It could be argued that applied ethical knowledge in macro-, meso-, and micro- levels of business ethics can lead to development of ethical business.

In order to find out whether business ethics is developed through knowledge management, quantitative research is carried out.

### 3. Research Method

Quantitative research method was selected for data collection, which aims to acquire quantitative information about many research objects (in this case, employees of Lithuanian companies). It was chosen to conduct an anonymous survey.

The research questionnaire, elaborated by authors, contains an introductory part, which defines who and for what purpose the research is carried out, emphasis on anonymity and twelve main questionnaire statements blocks: the first four are on knowledge in business ethics creation in macro-, meso- and micro-levels, next - to reveal ethical knowledge storage, transfer, and the last are related to the application of knowledge in business ethics. This set of questions is based on the four-component model of knowledge management of Alavi and Leidner (2001). Each component was analysed by the three-level model of business ethics by Appelbaum et al. (2009). Respondents were asked to rate the accuracy of the presented feature by choosing an answer on a Likert scale from 1 to 5, where 1 means “Completely Disagree”, 2 - “Partially Disagree”, 3 - “Neutral Opinion”, 4 - “Partially agree” and 5 - “Completely agree”). Demographic questions are placed at the end of the questionnaire. Participants were sent an invitation e-mail with a link to fill the online questionnaire.
The research sample was examined by the SPSS 21 software. Descriptive statistics, crosstabulation were used for data analysis. Mean values (M), medians (MD), standard deviation (SD) were calculated and analysed. According to the Kolmogorov-Smirnov test, the data is not normally distributed, as well, measured on a rank scale, therefore, nonparametric Spearman correlation coefficient (r) was used to determine the significance of the relationships: if 0<|r| ≤0.3, values are weakly dependent, if 0.3<|r|≤0.7 - moderately dependent, and if 0.7<|r| ≤1 - strongly dependent. When the significance level was p <0.05, the difference in indications between the dimensions was considered statistically significant.

4. Results and Discussion

In developing ethical knowledge at the macro-level, Lithuanian companies are developing the norms of behaving fairly, honestly, not lying (M=4.03, MD=4.00, SD=1.115), and respect the principle of equality (M=3.89, MD=4.00, SD=1.110). Though, the principles are often questioned in a variety of compromise situations (M=3.12, MD=3.00, SD=1.297), and employees are often convinced that ethical decisions are driven by the principle of selfishness (M=3.11, MD=3.00, SD=1.345). Assumed the importance to meet stakeholders’ needs, companies seek to acknowledge how to respond to the interests of customers, buyers, consumers in the production / servicing (M=4.04, MD=4.00, SD=1.074), are quite active in cooperating with competitors, which have become partners following the change in their approach to competition (M=3.92, MD=4.00, SD=1.125). Companies are less likely to invite the stakeholders to discuss performance (M=3.26, MD=3.00, SD=1.272), and show less interest to hold roundtables, inviting various stakeholders to identify their interests and opportunities together (M=2.92, MD=3.00, SD=1.454). Employees of companies underestimate the possibilities to find out the solution to complex ethical situations thanks to governmental institutions (M=2.99, MD=3.00, SD=1.147). At the micro-level, a common practice is to increase awareness of what is right, moral, and what is not in the company by discussing with colleagues in informal way (M=3.93, MD=4.00, SD=1.105), less often - in communication with managers (M=3.52, MD=4.00, SD=1.209). Consensus within the team on what is moral and fair and what is not could be better (M=3.36, MD=3.00, SD=1.212).

When analysing how ethical knowledge storage occurs at the macro-level, it can be observed that some companies integrate it into social responsibility reports (M=3.04, MD=3.00, SD=1.375). However, companies’ domains of ethical knowledge are not very accessible to the society, as companies focus on IT solutions seeking to accumulate knowledge (even via methods such as surveillance cameras (M=2.76, MD=3.00, SD=1.512)) but also to protect it, often on the grounds of competitive secrecy or personal data protection (M=3.79, MD=4.00, SD=1.307). At the meso-level, companies often establish code of ethics for their activities with other companies and stakeholders (M=3.64, MD=4.00, SD=1.363), with fewer having an appointed ethics board / committee / specialist (M=3.03, MD=3.00, SD=1.506). Employees state they are familiar with the moral standards in the company (M=4.02, MD=4.00, SD=1.115), but not much employees state that everything is clearly written in the detailed rules, instructions, standards, or other documents (M=3.55, MD=4.00, SD=1.284), there are many unwritten rules that employees simply know (M=3.73, MD=4.00, SD=1.282), though, a large number of employees have doubt in their work, how to deal with specific situations (M=2.83, MD=3.00, SD=1.279), ad a number of managers also hide information from employees that they do not need to know by their position (M=2.95, MD=3.00, SD=1.375), while colleagues are rather silent, seeing / hearing the unethical actions (M=2.94, MD=3.00, SD=1.260) instead of revealing this. At the micro-level, the most common practices for preserving ethical knowledge are focused on
keeping accumulated knowledge secret in the for internal needs, as the work or movement of most employees is tracked through IT programs (M=3.61, MD=4.00, SD=1.506), a large proportion of employees have signed non-competing agreements (M=3.86, MD=4.00, SD=1.004) and employees are required to sign a confidentiality agreements before the employment (M=3.78, MD=4.00, SD=1.306). Moreover, sometimes employees are required to keep the company’s secrets on illegal actions (M=2.23, MD=2.00, SD=1.438).

For business ethics knowledge transfer at the macro-level, companies communicate their values, mission, and credo (M=3.39, MD=4.00, SD=1.515), social responsibility (M=3.38, MD=3.00, SD=1.319) and social activities towards the society (M=3.06, MD=3.00, SD=1.327). At the meso-level, many companies voluntarily provide information to media on their activities and results (M=3.75, MD=4.00, SD=1.282). Incorrect information about goods and services provided to customers on labels / instructions is rare (M=1.81, MD=1.00, SD=1.165), as well as unethical / false advertising of the company’s products / services (M=1.69, MD=1.00, SD=1.061). At the micro-level, the best transmitters of ethical knowledge are company’s managers who become ethical and moral leaders (M=4.03, MD=3.00, SD=1.241), and their actions show employees that unethical activities are not tolerated in the company (M=4.03, MD=3.00, SD=1.241). Complaints about non-compliance of ethics are still quite rare among the employees themselves (M=2.57, MD=2.00, SD=1.347).

In the application of business ethics knowledge at the macro-level, the majority of respondents agree that companies primarily aim to create the greatest value for the stakeholders (M=3.76, MD=4.00, SD=1.065) and they are socially responsible indeed, confirming this through actions (M=3.56, MD=4.00, SD=1.294), engaged in charity (M=3.13, MD=3.00, SD=1.244), and their performance contributes to solving problems of society (M=3.72, MD=4.00, SD=1.419). Only a small number of companies significantly pollute the environment (M=1.65, MD=1.00, SD=0.999), though respondents acknowledged that the performance of most companies is detrimental to the health of society members in one or another way (M=4.21, MD=4.00, SD=0.908 ). In terms of stakeholders, business ethics is applied to help companies create benefits for local communities (M=3.65, MD=4.00, SD=1.257), and is rarely detrimental to them (M=1.64, MD=1.00, SD=1.011). The company seeks to meet the interests of all stakeholders in its activities (M=3.24, MD=3.00, SD=1.269), to perform their duties properly, to a high standard, even if this deters the customer (M=3.07, MD=3.00, SD=1.309). Also, the competition between the company and competitors is fair (M=3.76, MD=4.00, SD=1.186), competitors are competed in legal ways (M=4.14, MD=5.00, SD=1.083), in rare cases companies try to harm competitors (M=1.67, MD=1.00, SD=1.020). Companies perform their obligations to the partners by being able to complete their work on time in good faith (M=3.64, MD=4.00, SD=1.555), as well as to perform their financial obligations (M=2.83, MD=3.00, SD=1.445). Study shows intolerance for low quality of goods and services (M=1.94, MD=1.00, SD=1.218). Companies rarely bribe representatives of other institutions for the benefits (M=1.62, MD=1.00, SD=1.044) or better services (M=1.69, MD=1.00, SD=1.061). At the organizational level, words often coincide with actions in the company (M=3.76, MD=4.00, SD=1.050).

Those working in the same positions are paid the same salary (M=3.49, MD=4.00, SD=1.292), and misconducted employees are fired (M=3.09, MD=3.00, SD=1.460). Minorities and women are rarely discriminated (M=1.58, MD=1.00, SD=0.993), documents forged (M=1.71, MD=1.00, SD=1.142), salaries paid in an “envelope” (M=1.53, MD=1.00, SD=1.112), abuse of office (M=1.99, MD=1.00, SD=1.276), spying workers (M=1.88, MD=1.00, SD=1.214) are rarely observed. However, there are still a number of cases of unfair recruitment or dismissal of employees (M=2.09, MD=2.00, SD=1.214), bribes for promotion or recruitment (M=2.25, MD=2.00, SD=1.234), and exploitation of employees (M=2.14, MD=2.00, SD=1.302). A mercantilist approach to the application of business ethics is noticeable, as employees often know that their salary depend on the results achieved (M=3.50, MD=4.00, SD=1.390), so, the goal is to achieve it (M=2.98, MD=3.00, SD=1.343), and even high risk is justified for that (M=3.91, MD=4.00, SD=1.116), so it becomes normal for the employees to behave in a way that is useful in the case and change the position if needed (M=2.99, MD=3.00, SD=1.260). Despite such practices, many employees acknowledge there are employees / managers in the team whose actions cannot be morally justified (M=3.18, MD=3.00, SD=1.433), and that long run orientation of companies is the rather rear comparing to the short term (M=1.75, MD=1.00, SD=1.053).

Analysing business ethics knowledge management results, we can see that a lot of practices applied in accordance to ethical knowledge are interlinked together. There is statistically significant correlation between mismatches words with actions in the company and employee exploitation (0.594), there employees are required to maintain the secrets of the organization (-0.531), bribes are taken for promotion or hiring (0.506), and to maintain the company’s secrecy about illegal activities, and counterfeit documents (e.g., financial statements) (0.547). Falsification of documents correlates to compensation for work partly in an ‘envelope’
(0.568), bribes given to representatives of other institutions for the benefit or advantage (0.610), and unethical, false advertising of products or services (0.509). Links were found between abuse of office and bribes for promotion or hiring (0.542), to bribes to other institutions for convenience or benefit (0.524), or to employees for better services (0.507), forgery of documents (0.528), unfair dismissal (0.601), unethical, false advertising (0.552), tolerance of lack of quality in goods and services (0.504), exploitation of employees in the company (0.643), and mismatches words with actions (0.531). Bribes to other institutions for advantage or benefit relate to bribes to employees for better services (0.697), as well as to bribes for promotion or recruitment (0.504). Also, unethical, false advertisements correlates to the tolerance of lack of quality (0.596), the harm of company’s performance to the local community (0.543), buyers, customers and consumers are given then incorrect information (0.545) and services (0.528).

Otherwise, there is a strong positive statistical correlation between the presence of the leaders of the company as ethical leaders and moral example and the importance of acting fairly, honestly and not lying in the company (0.582), coincidence of words in the company (0.637), and more respect for the principle of equality (0.608), as well as, if there is an opportunity in the company to discuss with managers in the team what is right, morality, and what is not (0.590). Having an company’s code of ethics aligns with having an ethics council / committee / specialist (0.528), the company's efforts to protect personal data by investing in IT (0.603) and announcing social responsibility reports (0.537).

Summarized information by deriving the means of manifestation of various subprocesses in business ethics knowledge management is presented in the Table 1:

Table 1: The expression of knowledge management process stages in different levels of business ethics in Lithuanian companies (averages of M)

<table>
<thead>
<tr>
<th>Business ethics level</th>
<th>Knowledge creation</th>
<th>Knowledge storage</th>
<th>Knowledge transfer</th>
<th>Knowledge application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macro</td>
<td>2.90</td>
<td>3.20</td>
<td>3.28</td>
<td>3.22</td>
</tr>
<tr>
<td>Meso</td>
<td>3.43</td>
<td>2.93</td>
<td>3.41</td>
<td>3.71</td>
</tr>
<tr>
<td>Micro</td>
<td>3.60</td>
<td>3.45</td>
<td>3.31</td>
<td>2.73</td>
</tr>
<tr>
<td><strong>Average:</strong></td>
<td><strong>3.31</strong></td>
<td><strong>3.19</strong></td>
<td><strong>3.33</strong></td>
<td><strong>3.22</strong></td>
</tr>
</tbody>
</table>

Based of the study results, H1: Ethical business is developed through business ethics’ knowledge creation is partly confirmed. Most of the companies in Lithuania accumulate acknowledgement of appropriate ethical values and norms in business within the company, less of ethical knowledge is acquired in communication with stakeholders, and the least source for that is the societal level, while overall level only slightly exceeds neutral position.

H2: Ethical business is developed through business ethics’ knowledge storage is partly confirmed, because also, the overall level of signs of business ethics is even less so than the neutral assessment. Again, at the organizational level, knowledge of business ethics is largely institutionalized, and at the macro-level, sources of knowledge of business ethics are also found, but at the meso-level, there is a lack of consolidation of knowledge of business ethics.

H3: Ethical business is developed through business ethics’ knowledge transfer is partly confirmed. Although this area has reached the highest level of resolution, it is still not well rated. Here, on the contrary, at the meso-level, the greatest effort is made to spread the message about the ethics of a company’s business, while the dissemination of ethical knowledge at the societal and organizational levels is slower.

Finally, H4: Ethical business is developed through business ethics’ knowledge application is also partly confirmed. The overall average is also just above the neutral position. The most insufficient expression of the application of business ethics knowledge is within companies, when at the stakeholder level the focus is on their application, at the societal level the applicability of business ethics knowledge is insufficient.

5. Conclusions

After the analysis of the scientific literature, it was determined that most scholars understand knowledge management as a process whose framework consists of the subprocesses of knowledge creation, storage, transfer, and application. However, knowledge management in relation to diverse nature of intellectual capital
may be different, especially when it comes to socially sensitive topics such as business ethics at the societal, stakeholder and organizational levels.

Quantitative research revealed that most Lithuanian companies develop appropriate ethical values and norms, the importance of which is recognized in business. Less of ethical knowledge is gained through communication with stakeholders, and the least exploited source is the societal level. At the organizational level, knowledge of business ethics is largely institutionalized, and at the macro-level, sources of knowledge of business ethics are also found, but at the stakeholders level, there is a lack of consolidation of knowledge of business ethics.

The transfer of business ethics knowledge reaches the highest level of expression. At the meso-level, the greatest efforts are made to spread the message about a company’s ethics in business, and the dissemination of ethical knowledge at the societal and organizational levels is worse. The underestimation of business ethics knowledge application is found in companies, when the focus is on its application at the stakeholder level, and the applicability of business ethics knowledge at the societal level is insufficient.

For further studies in other companies, the subprocesses of knowledge management can be applied to evaluate the expression level and develop business ethics knowledge management, embedded at different levels of business ethics. The analysis of the links between the research questions lead to the understanding that the managers play a very important role in moral leadership and leading by example creating ethical business, with high level of respect to the interests of external and internal company’s stakeholders and society on the whole.

Acknowledgements

Research conducted under the project “Smart development of organizational knowledge ecosystem”, S-MIP-21-49.

References


Infrastructural Considerations.


