

Business ethics in subsidiaries of multinational companies in countries in the post-transition economic phase using the example of the Czech Republic*

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Abstract

This paper examines the area of business ethics in subsidiaries of multinational companies operating in the Czech Republic. The empirical investigation involved 335 subsidiaries from sectors in which business activities in the Czech Republic predominate according to the official CZ NACE statistical european classification (Nomenclature générale des Activités économiques dans les Communautés Européennes), with differentiation according to the size, legal form and ownership of the multinational company in the subsidiary operating in the Czech Republic. The results obtained indicate that a code of ethics has a significant prevalence in subsidiaries of multinational companies. It was demonstrated that the introduction of a code of ethics is related to the national culture of the head office, which is its main creator. By contrast, the effects of a code of ethics on financial performance are not statistically significant.

Keywords: business ethics, code of ethics, multinational corporations, empirical research, financial performance

JEL F23, M16

Introduction

Ethics connected with moral principles are currently a topical issue in the region of *Central and Eastern Europe* (hereinafter CEE), and are linked to all areas of public and private life. Within this context the development of business ethics, which are reflected in the creation of an appropriate business environment, is increasingly gaining in importance. Business ethics examine and make use of

* Received: 15.04.2015, accepted: 07.04.2017, 4 revisions.

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moral values, principles and standards which determine and control the behaviour of participants at all levels of the business. This is also the basis of their inclusion in the framework of economic theory, whereby business ethics must fulfil the condition of the functionality of the economic system (Šmajš et al. 2012). Definitions of ethics can be found in international works which focus more on a conception of a code of ethics linked with the exercise of a business activity. Here the code of ethics is defined as a corporate statement which sets out the company's principles, ethics, rules of conduct, codes of practice or company philosophy concerning obligations to stakeholders, the environment, and all other aspects of society outside the company (Langloise/Schlegelmilch 1990). The code of ethics covers the company's responsibility towards all interest groups, including employees (Kaptein/Wempe 2002). It, therefore, becomes a theoretically empowering document for eliminating unethical or immoral behaviour and represents a source for evaluating one's own activities, through which it also contributes to a higher level of organizational culture and the related socialization process (Šmajš et al. 2012).

In countries with a market economy, ethics have been developed over a long period and a similar process can be expected in countries where a transformation of the economy is underway or has already taken place. Findings from countries with a developed market economy link some unethical practices to the transition process (originating in the operation of the "black market" familiar in CEE) and the globalization of the economy (Chakraborty 1997). With regard to the primary research connected with corporate ethics in countries in the post-transition phase, these themes most often appear as information in annual reports linked to reports on the social responsibility of firms. Annual reports usually contain all the elements of *corporate social responsibility* (hereinafter CSR) classified according to the triple bottom line (Kašparová 2011). This is most often contained in the annual reports of subsidiaries of *multinational companies* (hereinafter MNC), but we also find them in companies with owners from the same country. In relation to this, ethical rules for conducting business and the mutual influence of these rules can be found among MNCs and companies with owners from the same country. We, therefore, frequently encounter discussions which aim to identify global ethical rules, especially with regard to the growth of direct foreign investment and countries' increasing level of involvement in international trade (Payne et al. 1997). There is also a significant level of discussion about the influence of culture on ethics and the associated high-risk nature of investment caused by the entry of MNCs into selected CEE markets (Brouthers et al. 1998). Foreign research into CSR also points to a relationship between CSR and financial performance (Walsh et al. 2003). Research carried out on the largest MNCs has indicated that the majority of them have a code of ethics linked to stakeholders, corporate values and a code of conduct (Kaptein 2004).

This paper examines the ethics of multinational subsidiaries operating in a post-transformation market. It is unlike the other studies we have mentioned which are from countries with a developed market economy, where different trends associated with socially responsible corporate behaviour are apparent (Maignan/Ralston 2002). This paper presents the issues surrounding the ethics of subsidiaries of MNCs operating in a post-transition market environment. With regard to earlier studies describing the transformation of the Czech economy from a planned economy to a market economy, aspects historically linked with the totalitarian regime are presented. This largely relates to negative phenomena in response to the transformation of the economy (embezzlement) and also, no less importantly, to the initial shortcomings of the market system itself (Bohatá 1997), and with some global phenomena already presented (Vogel 1992). However, it was assumed that the shortcomings of the newly created market system would adjust to standard conditions following the establishment of a fully operational market environment and legal framework, and the Czech Republic's integration into international structures, especially the EU. This has also been shown by other research which examines issues surrounding the economic and ethical attitudes of citizens of CEE (Padelford/White 2010), or even comparative studies of a post-communist country with a country with a developed market economy (Jelovac et al. 2011). It also shows the growing significance of CSR and a company's competitiveness with regard to corporate ethics (Drucker 1984).

We are aware of the fact that CSR has been widely developed and contains several other institutionally operative factors, such as regulation, independent organization and institutionalized norms (Campbell 2007). Previous research into the links between CSR and corporate financial performance has indicated a positive relationship. However, the authors emphasize the difficulty of researching these links with regard to previous research (Orlitzky et al. 2003). In the light of these factors, our research primarily focuses on a subsection of CSR, specifically corporate ethics in the Czech Republic and the existence of a code of ethics.

The aim of this paper is to determine the prevalence of a code of ethics in subsidiaries of MNCs operating in the Czech Republic. A secondary aim of the paper is to find an answer to the frequently discussed question of whether there is a correlation between financial performance and business ethics. On the basis of the findings for the Czech Republic, an opinion can be formed on the importance of a code of ethics in MNC subsidiaries operating in countries in the post-transition phase of the market economy.

We consider these results to be important for the following reasons; until now there has been little research into the application of corporate ethics in MNC subsidiaries operating in countries which have undergone economic transformation. As in countries with a developed market economy (Gjølberg 2009), countries with transforming economies or with economies in a post-transformation

phase still have ongoing specialist debates (Dumitrescu /Simionescu 2015) about whether socially responsible behaviour, including corporate ethics, is in some way related to efficiency, and what can be expected from the introduction of a code of ethics to a company. Finding answers to these questions leads to a shift in theoretical knowledge both in MNC research and in CSR in a post-transformation economy.

Literature Review

MNCs represent an important element of a functioning market environment and facilitate a country's integration into international structures. Their other benefits include the fact that they contribute to the culture and ethics of business in the given country (Barker/Cobb 1999). Also related to this are issues currently being debated concerning the social aspects of MNC personnel policy, the ambiguity of values and behaviour in an international environment and the broader conception of ethics derived from this, which also involves interest groups working in cooperation with MNCs (Banai/Sama 2000; Elms 2006). Research to date displays a mainly positive view of the operation of MNCs in the host countries of CEE, with the caveat that there is insufficient research into the possible negative effects on local interest groups (Meyer 2004). In this context, attention is devoted primarily to the international code of ethics (Schwartz 2005). However, the complexity of this issue in an international setting indicates the difficulty of creating a universally applicable code of ethics for MNCs (Winkler/Remisova 2007). Asgary and Mitschow (2002) recommended linking all the viewpoints focused on social aims, social and ethical norms and cultural values which reflect the global market environment. Farrel et al. (2002) went further and recommended only codes with clear and precise rules of conduct which have a disciplinary function. Other findings indicate that the requirements of the home and host countries in terms of ethical expectations are adapted to one another through the institutionalized role of MNCs (Tan/Wang 2011); however, the actual process of transmitting corporate codes of ethics within MNCs and the way in which they influence the conduct of organizations has not been sufficiently accurately described (Helin/Sandström 2007). Winkler (2011) stated that codes of ethics do not represent employees as a group with specific behaviour, but as mere passive receivers of rules and regulations. According to the code of ethics, measures linked to behaviour may take the form of coercion; however, even here limits associated with their application were identified (Lere/Gaumnitz 2003). In the final analysis, the acceptance and distribution of the code of ethics in the external environment can have positive as well as negative results which are reflected in the company's financial performance (Gaumnitz/Lere 2011). Another factor influencing the acceptance of the code of ethics is the disparity between the corporate and national culture (Helin/Sandstrom 2008) in politically developed countries with regard to the transmission and implementation of codes

of ethics. The results of studies in CEE countries have not yet been incorporated into the general conclusions (Scholtens/Dam 2007).

Similarly, the relationship between business ethics and the performance of subsidiaries of MNCs is the focus of interest for many studies, which point to some interesting findings. Previous studies looking at the issue of CSR presented a selection of activities connected with CSR which link external and internal corporate governance mechanisms with a positive impact on the firm's value (Jo/Harjoto 2011) or on financial performance (Tang et al. 2012). It shows that an increase in CSR also corresponds to an increase in financial performance (Waddock/Graves 1997), which is demonstrated on several variables (firm size, risk, tolerance, industry), unlike previous studies (e.g. McGuire et al. 1988) which only examined the relationship between social responsibility and financial performance. Nevertheless, it is possible to find opinions which place financial performance above CSR (Jensen 2002) and it is generally assumed that owners in the position of investors are unwilling to pay a theoretical premium for socially responsible corporate behaviour (Pava/Krausz 1996). Both authors also reached the conclusion that financial performance is on the same, or even on a better level, than for companies without a declaration of social responsibility. In another study we even encountered an indication of a causal relationship between CSR and financial performance (Ameer/Othman 2012). However, the introduction of corporate social performance is associated with both positive and negative effects on competitiveness, with a need for appropriate implementation in the company (Dentchev 2004). Upon a closer examination of CSR and the corporate ethics linked to it, some empirical findings suggest that corporate ethics are vital for all stakeholders in the internal and external environment of the company. International research into CSR presents the motivations of various interest groups in implementing socially responsible business conduct (Maignan/Ralston 2002), which confirms that managers' motivation for introducing CSR is linked to financial performance. Nevertheless, some studies point to the considerably varied influence of corporate governance performance internationally, where the unfolding links to CSR are caused primarily by stakeholders (Aguilera/Jackson 2003; Driver/Thompson 2002). As was mentioned in the previous section of this paper, in the case of social behaviour in MNC subsidiaries there exists suspicion in terms of the difference "between the rhetoric of socially responsible corporate behavior and substantive action" (Campbell 2007). Many commercial companies or MNC subsidiaries which present themselves as socially responsible only present their CSR activities rhetorically without genuinely carrying them out (Roberts 2003; Weaver et al. 1999). We are aware of all of the aspects of CSR described in the theory, the large scale and difficulty associated with examining this area, and that is why we are only focusing on ethical codes in CSR, which may bring interesting smaller-scale results. Donker et al. (2008) also gave evidence of the positive effect of corporate values on a company's financial per-

formance generated by the code of ethics. It is possible to introduce this theme via the implementation of CSR in MNC subsidiaries in CEE countries using the Czech Republic as an example. On the basis of the theoretical findings presented and the aims of this paper, three research questions can be established:

RQ1: What is the prevalence and method of establishing a code of ethics in MNC subsidiaries operating in the Czech Republic?

RQ2: Is there an association between the establishment of a code of ethics in an MNC subsidiary and the national culture of the country where the MNC head office is located?

RQ3: Is there a difference in the financial performance of MNC subsidiaries with regard to the existence and method of establishing a code of ethics?

With respect to these research questions, in 2011 a study was carried out in the Czech Republic which focused on the operation of MNC subsidiaries in the Czech Republic (Blažek et al. 2011), and one of the areas of interest was the investigation of business ethics. The study aimed to comprehensively describe and analyze the behaviour of subsidiaries of MNCs which have their business operations in the Czech Republic. It focused on the creation of MNC subsidiaries in the Czech Republic, the organizational structures of the subsidiary and the entire multinational company, cooperation, knowledge and innovation, ethics and strategy implementation.

Methodology

The population consisted of 2,509 subsidiaries of MNC which operate within the Czech Republic and fulfil the parameters for size (50 or more employees), legal form (joint-stock company or limited-liability company) and origin of registered capital (registered capital fully or partially made up of foreign capital).

In view of the findings from similar studies (Singh 2011; Callaghan et al. 2012) from other parts of the world, we only selected subsidiaries with 50 or more employees for our research. These subsidiaries are typically involved in both sales and production. They have strong links to the parent company and the relationships are clearly defined, which makes it possible to fully explore their nature (Andersson et al. 2007). In addition, subsidiaries with more than 50 employees have greater opportunities to adapt to the surrounding environment (Rant 2007) and show a significant improvement in productivity as a result of direct foreign investment (Blyde et al. 2004). They are subject to systematic control by the parent company over the long term, so the relationship is not an ad hoc one (Nell/Ambos 2013). Finally, there is generally much more emphasis placed on CSR (the area our research into ethical codes comes under) in companies with more than 50 employees (Katsioloudes/Brodtkorb 2007).

All of these subsidiaries contained in the population set were then contacted by telephone to discover if they were willing to take part in the research. Naturally, participation was voluntary. In the end, 335 MNC subsidiaries took part in the research, and so this cannot be considered a random sample as it was the respondents' decision to participate in the study. Nevertheless, we verified the representativeness of the sample with respect to the key parameters: the number of employees, legal form, the structure of the business sectors, and the share of foreign capital.

The companies included in the sample set participated in a questionnaire survey which also covered questions linked to the creation and transference of a code of ethics from the head office to the subsidiary and the effect of national culture on the culture of the MNC subsidiary. The data obtained were subsequently verified for ten randomly selected MNC subsidiaries from the sample: a guided interview was carried out with a top manager of the subsidiary and internal information supplied by the company was processed.

The research methods employed were, therefore, mainly quantitative, but some results were supplemented by findings from qualitative research in the form of in-depth interviews with the management from selected companies.

In view of the primary function of the questionnaire survey, the research sample had the following parameters. The sample set consisted of 335 MNC subsidiaries, which represents 13.35% of the initial population. The size of subsidiaries according to the number of employees was as follows: from 50 to 99 employees 24.2%; from 100 to 249 employees 39.7% and more than 250 employees 36.1% (Table 1).

Table 1: Comparison of population and sample according to size of company measured by number of employees.

Number of employees	Population		Sample	
	absol.	%	absol.	%
50–99	961	38.3	81	24.2
100–249	873	34.8	133	39.7
250 and more	675	26.9	121	36.1
total	2,509	100.0	335	100.0

In terms of legal form, the sample was made up of 20% joint-stock companies and 80% limited-liability companies (Table 2). The predominance of the legal form of the limited-liability company can primarily be accounted for by the flexibility in setting up a daughter company of a multinational company.

Table 2: Comparison of population and sample according to legal form of company.

Legal form	Population		Sample	
	absol.	%	absol.	%
joint-stock company	529	21.08	67	20.00
limited liability company	1,980	78.92	268	80.00
total	2,509	100.00	335	100.00

The representation of MNC subsidiaries covers the structure of business sectors in the Czech Republic. The greatest prevalence was shown in manufacturing and companies representing wholesale and retail trade, with the proportion exceeding 10%. These two most prevalent sectors as well as the other sectors are present in the corresponding proportion of the population and sample. From a sectoral point of view, MNC subsidiaries were most prevalent in section C – manufacturing (59%), G – wholesale and retail trade, repair and maintenance of motor vehicles (13%), M – professional, scientific and technical activities (6%) and section J – information and communication (4%). These most important sections of the sample contained 82% of the MNC subsidiaries under observation (Table 3).

Table 3: Comparison of population and sample according to sector of activities (CZ-NACE).

CZ-NACE section	Population		Sample	
	absol.	%	absol.	%
A Agriculture, forestry and fishing	11	0.44	1	0.30
B Mining and quarrying	19	0.76	0	0.00
C Manufacturing	1,264	50.38	197	58.81
D Electricity, gas, steam and air conditioning supply	16	0.64	4	1.19
E Water supply; sewerage; waste management and remediation activities	30	1.20	6	1.79
F Construction	61	2.43	9	2.69
G Wholesale and retail trade; repair and maintenance of motor vehicles	464	18.49	45	13.43
H Transportation and storage	111	4.42	14	4.18
I Accommodation and food service activities	51	2.03	6	1.79
J Information and communication	108	4.30	14	4.18
K Financial and insurance activities	50	1.99	4	1.19
L Real estate activities	45	1.79	2	0.60
M Professional, scientific and technical activities	137	5.46	20	5.97
N Administration and support service activities	100	3.99	9	2.69
P Education	7	0.28	1	0.30
Q Health and social work	17	0.68	0	0.00

CZ-NACE section	Population		Sample	
	absol.	%	absol.	%
R Arts, entertainment and recreation	5	0.20	0	0.00
S Other activities	13	0.52	3	0.90
total	2,509	100.00	335	100.00

In the sample, subsidiaries with 100% foreign capital in the registered capital (85.1% of MNC subsidiaries) outnumbered subsidiaries with a majority share of foreign capital – more than 50% of foreign capital in the registered capital (13.4% of MNC subsidiaries) – and subsidiaries with a minority share of foreign capital – less than 50% of foreign capital in the registered capital (1.5% of MNC subsidiaries). For more details see Table 4.

Table 4: Comparison of population and sample according to proportion of foreign capital (only for companies where this proportion is known).

Proportion of foreign capital	Population		Sample	
	absol.	%	absol.	%
to 50% including	76	4.3	5	1.5
more than 50%, less than 100%	249	14.1	43	13.4
100 %	1 442	81.6	274	85.1
total	1 767	100.0	322	100.0
N/A (not available)	742		13	

On the basis of a comparison of key parameters, the sample can be regarded as relevant with regard to the population.

The analysis of companies' financial performance was based on Kaplan and Norton's idea that increasing revenues and productivity improvements are mutually exclusive and cannot be easily implemented together. Kaplan and Norton (2004) explained that only excellent companies are able to achieve very high financial growth and improve productivity. The most frequently used indicators for a company's financial performance are based on sales and assets (Hult et al. 2008). In particular, Šiška and Lízalová (2011) identified that *return on assets* (hereinafter ROA) and *growth of assets* (hereinafter GA) are the most suitable indicators of a company's financial performance. To determine financial performance, five-year arithmetical averages of these indicators were used to avoid fluctuations in values. The product of the five-year averages of both indicators (ROA and GA) of a company is designated as the coefficient of financial performance and expresses the overall success of the financial strategy. The division of the companies into their five-year financial performances then led to the following:

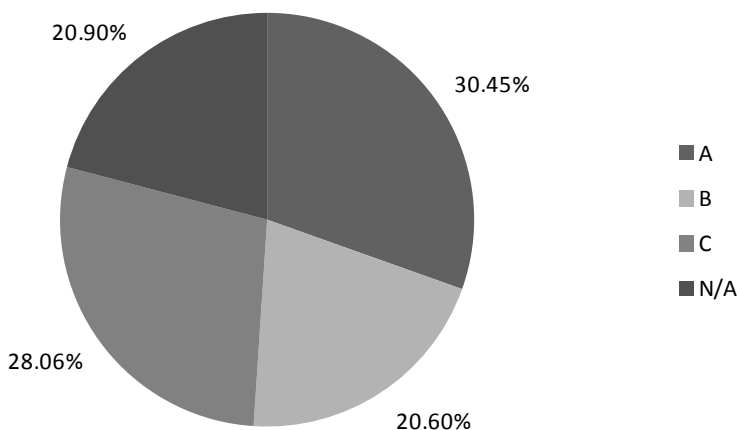
Group A refers to companies with high financial performance, where the five-year averages of both indicators ROA and GA are positive and their product is above the limit in the form of the product of the medians of the five-year averages for ROA and GA of all the companies.

Group B refers to companies with medium financial performance. This group includes companies with positive five-year averages for ROA and GA, but they do not belong to group A as the coefficient for their financial performance did not exceed the given limit.

Group C includes companies with low financial performance, where in at least one case the ROA or GA average is not positive for the five-year period. The above-mentioned method is presented in more detail by Blažek et al. (2011).

Unfortunately, in the case of 70 subsidiaries (20.9%) the necessary data were not available, due to which their affiliation to groups A, B and C could not be determined (Figure 1).

Figure 1: Economic performance of firms in the sample set



The methodological framework for our research is based on research methods already used in CSR (Taneja et al. 2011) and builds on the summarized findings from CSR research for small and medium sized companies (Vazquez-Carrasco/ Lopez-Perez 2013), where, inter alia, a lack of quantitative research can be seen in this area.

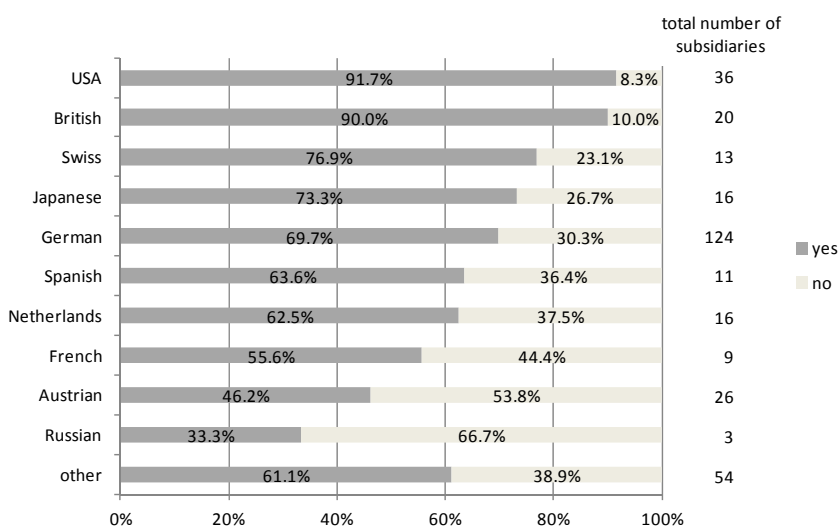
In order to fulfil the aim of the paper, descriptive statistics tools were employed (to determine the prevalence of a code of ethics) along with statistical methods for the analysis of the dependencies of categorical data; specifically, the methods used were Pearson's chi-squared test of independence (to determine the association between the existence of a code of ethics and the adopted national culture of the head office) and ordinal regression (to determine the relationship between

the level of financial performance and the existence of a code of ethics, including the method by which it was established). For the actual processing, R version 3.1.0 statistical software was used (R Core Team 2014).

Results

German culture predominated in the sample (124 subsidiaries), followed by US-American culture (36 subsidiaries), Austrian (26 subsidiaries) and British (20 subsidiaries) culture. This also reflects the representation of individual countries in terms of major investors (measured by the number of existing subsidiaries) operating in the Czech Republic. A code of ethics is in place in 68.9% (228 out of 331¹) of MNC subsidiaries. In relation to the declared national culture of the multinational company's head office, the existence of a code of ethics was found in varying degrees with all of the countries represented through a subsidiary in the Czech Republic (Figure 2).

Figure 2: Existence of a code of ethics from the viewpoint of the effect of the national culture of the MNC head office



From the results obtained it emerges that the greatest prevalence of a code of ethics is found in US-American and British subsidiaries of MNCs (90% or more). Conversely, it occurs least often in subsidiaries of MNCs with a Russian² (33.3%) or Austrian culture (46.2%). With regard to our assumption that for MNCs from countries where the national culture of the head office is characterized by a fully developed market economy the existence of a code of ethics will

1 Information about the code of ethics was not filled in by four subsidiaries.

2 There were only three Russian subsidiaries; the data is therefore purely indicative.

predominate in the subsidiaries in the host country, the results for Austrian MNC subsidiaries are surprising, with a code of ethics occurring in fewer than half of them. Based on Pearson's chi-squared test of independence,³ it can be demonstrated that the introduction of a code is related to the national culture of the MNC head office ($p = 0.005$). Post-hoc analysis was subsequently carried out in the form of multiple comparison, where p-values of chi-squared tests for individual pairs were recalculated using Holm's correction (Holm 1979). When the individual national cultures of MNC subsidiaries were compared with each other, it emerged that there was a statistically significant difference in the prevalence of a code of ethics between US-American and Austrian MNC subsidiaries ($p = 0.005$). The interviews conducted as part of the empirical investigation showed that MNC subsidiaries with headquarters in the USA are strongly encouraged to observe a code of ethics by means of an independent audit linked to an integral conception of the running of the subsidiary and head office. Contrastingly, MNC subsidiaries with their headquarters in Austria tend to apply the performance-related aspect linked with production and the centralization of the management of the subsidiary. Furthermore, from interviews with representatives of subsidiaries of Austrian and German companies, it emerged that there was a rather perfunctory approach to the existence of a code of ethics to be presented as part of the company's CSR towards the external environment and its shareholders. However, with some German companies operating globally, there is much greater emphasis on the issue of the ethical code, in the light of previous findings (Talaulicar 2009) and experience, to actively influence the behaviour of employees at the company's subsidiary operating in the Czech Republic.

The information acquired from the empirical investigation can also provide a more detailed view of the method of establishing a code of ethics in a MNC subsidiary (Table 5). In MNC subsidiaries operating in the Czech Republic, the establishment of a code of ethics is most often linked to the adoption of a code of ethics from MNC headquarters (56.4% of subsidiaries which have a code of ethics). With this method of establishing a code of ethics, the code is simply borrowed from the MNC head office by the subsidiary, without significant adjustments being made for the environment of the subsidiary or the host country. This method of establishing a code of ethics predominates with countries where the national culture of the head office is US-American or British. Conversely, it is employed least in the case of subsidiaries⁴ where the predominant national culture of the head office's country is Swiss, Japanese or German (less than half of subsidiaries). In 23.1% of subsidiaries the code of ethics was borrowed and

3 The precondition of the test relating to expected frequencies was not fulfilled, and the p-value was therefore established on the basis of Monte Carlo simulation, where 100,000 replications were used.

4 Russian culture is not included due to the fact that only one business in the investigation had a code of ethics.

adapted to the local conditions of the subsidiary and almost a fifth (19.6%) of subsidiaries created their own code independently of headquarters. Two German subsidiaries reported a different method of establishing a code of ethics. In the first case the code was borrowed from the group which the business was originally part of, i.e. before the takeover by the current group. In the second case, the code of ethics had not been formally established in writing. It is only perceived to exist in an integral form and is based on the history and applied style of management and communication. Both of these cases involve production subsidiaries of MNCs from the manufacturing industry.

Table 5: The method of establishing a code of ethics with regard to the national culture of the MNC subsidiary (row relative frequencies). Pearson's chi-squared test with Monte Carlo simulated p-value: $p = 0.005$.

National culture	1 – central	2 – localized	3 – own	4 – other
US	20 (62.5%)	9 (28.1%)	3 (9.4%)	0 (0.0%)
British	11 (61.1%)	4 (22.2%)	3 (16.7%)	0 (0.0%)
Swiss	4 (40.0%)	4 (40.0%)	2 (20.0%)	0 (0.0%)
Japanese	5 (45.5%)	3 (27.3%)	3 (27.3%)	0 (0.0%)
German	40 (48.2%)	20 (24.1%)	21 (25.3%)	2 (2.4%)
Spanish	4 (57.1%)	2 (28.6%)	1 (14.3%)	0 (0.0%)
Dutch	7 (70.0%)	1 (10.0%)	2 (20.0%)	0 (0.0%)
French	5 (100.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
Austrian	9 (75.0%)	3 (25.0%)	0 (0.0%)	0 (0.0%)
Russian	0 (0.0%)	0 (0.0%)	1 (100.0%)	0 (0.0%)
other	20 (60.6%)	6 (18.2%)	7 (21.2%)	0 (0.0%)
N/A (not available)	2 (66.6%)	0 (0.0%)	1 (33.3%)	0 (0.0%)
total	127 (56.4%)	52 (23.1%)	44 (19.6%)	2 (0.9%)

The link which was examined between the financial performance of a firm and the existence of a code of ethics should answer research question RQ3. The analysis included only 260 subsidiaries, for which both the group classification (A, B, C) according to financial performance and the method of establishing the code of ethics was known. (The analysis does not include one subsidiary which reported a different way of creating the code of ethics and belongs to group A.) The division of subsidiaries' financial performance according to the existence and type of code of ethics is expressed using row relative frequencies (Table 6). The proportion of subsidiaries with high financial performance (A-subsidiaries) was lowest (32.5%) for subsidiaries without a code of ethics and this proportion increased with the degree of the subsidiaries' own contribution to the code of ethics, i.e. the relative number of A-subsidiaries was highest (47.2%) for subsidiaries which created their own code independently of headquarters. In the

case of firms with low financial performance (C-subsidaries), the opposite was true; a decrease from 42.5% to 30.6% was recorded. Despite these findings, the relationship between the level of financial success (ordinal variable) and the code of ethics (nominal variable) was not statistically significant ($p = 0.731$) by Pearson's chi-squared test.

Table 6: Financial performance of subsidiaries with regard to the establishment of a code of ethics (row relative frequencies). Pearson's chi-squared test p-value: $p = 0.731$.

The establishment of a code of ethics	A- subsidiaries	B- subsidiaries	C- subsidiaries
0 – without	26 (32.5%)	20 (25.0%)	34 (42.5%)
1 – central, all subsidiaries	39 (38.2%)	28 (27.5%)	35 (34.3%)
2 – localized	18 (42.9%)	11 (26.2%)	13 (31.0%)
3 – own	17 (47.2%)	8 (22.2%)	11 (30.6%)

Even though the relationship between the level of financial success ($Y=0$ for C-subsidary, $Y=1$ for B-subsidary and $Y=2$ for A-subsidary) and the way of establishing the code of ethics was not statistically significant, we further examined this relationship using an ordinal regression model, which is a generalized logistic regression model:

$$\text{logit } P(Y \geq j) = \log \left(\frac{P(Y \geq j)}{P(Y < j)} \right) = \alpha_j + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3, \quad j = 1, 2,$$

where x_1 , x_2 and x_3 are 0-1 dummy variables substituting the explanatory categorical variable. In particular, the variable x_1 indicates whether the subsidiary uses the headquarters' (central) code of ethics (1-yes/0-no); the variable x_2 indicates whether the subsidiary uses the modified (local) version of the headquarters' code of ethics (1-yes/0-no). The last variable x_3 expresses that the subsidiary uses its own code of ethics (1-yes/0-no) created independently of headquarters. The situation $x_1=x_2=x_3=0$ means that the subsidiary has no code of ethics. From the estimates of the regression parameters β_1 , β_2 , or β_3 , it again emerges that the higher the degree of the subsidiary's involvement in the creation of the code, the more likely it is to achieve better financial performance compared to the reference group, i.e. subsidiaries without a code of ethics. On average, the existence of a central code increases the odds of success (at least by one level of the financial performance categories A, B, C) by 35%, localization (modification of a central code to local conditions) increases these odds by 60.3% and the subsidiary's own creation by 79.7%, always relative to subsidiaries with no code of ethics. However, in agreement with the evaluation of an overall relationship between the outcome and independent variable by Pearson's chi-squared test, these results are not statistically significant (p -values for β -parameters are greater than 5%, see Table 7).

Table 7: Firms' financial performance with regard to the establishment of a code of ethics (ordinal regression).

Parameter	Estimate	95% Confidence Interval (CI)	Odds ratio Estimate	Odds ratio 95% CI	P-value
α_1	0.317	(-0.101, 0.734)	-	-	0.137
α_2	-0.750	(-1.176, -0.323)	-	-	0.001
β_1	0.300	(-0.242, 0.841)	1.350	(0.785, 2.320)	0.278
β_2	0.472	(-0.221, 1.165)	1.603	(0.802, 3.206)	0.182
β_3	0.586	(-0.147, 1.319)	1.797	(0.864, 3.741)	0.117

Discussion and Conclusions

The research carried out into the business ethics of MNC subsidiaries operating in the Czech Republic has provided new insights into business ethics in a country whose economy has recently undergone transformation. Empirical research indicates some new findings related primarily to formalizing the behaviour of the employees of MNC subsidiaries. The initial results (Šafrová Drášilová/Pirožek 2012) showed that nearly all (99.9%) managers of MNC subsidiaries were aware of the concept of a code of ethics. This awareness, together with the establishment, application and observance of a code of ethics, was recorded for the majority of the managers surveyed, with a varying degree of emphasis on its usefulness and significance (Thorne/Saunders 2002). This can be considered as a positive shift in connection with the transformation which took place in the economy and with the important role of multinational corporations in the market economy, as well as the associated integration into the international environment.

Further results from the empirical investigation show that the issue of business ethics is widely known and discussed, both at the level of the company's headquarters and in the mutual interaction between the head office and the MNC subsidiary. The sample set was represented by subsidiaries of companies from the countries which are among the largest foreign investors in the Czech Republic. Over two-thirds of multinational subsidiaries have a code of ethics. The research additionally showed that the most frequent method of establishing a code of ethics was the centralized adoption of the group's code of ethics from the MNC head office. The results also show the modification of the code of ethics to fit the local conditions of the subsidiary in the host country. It is interesting that with German MNC headquarters, subsidiaries have their own, not insignificant, way of creating their own code of ethics. This indicates a certain degree of freedom in the adoption of cultural values, which is consistent with the results of some research (Bondy et al. 2004).

One reason which managers gave for processing their own code in their MNC subsidiary was the influence of professional societies and associations which are

often subject to internationally organized professional institutions. However, in the case of the decentralized creation of an ethical code by an MNC subsidiary to suit local conditions, this always leads to a synergy of the ethical code's common features with the whole of the MNC.

The highest prevalence of a code of ethics is found among US-American and British MNC subsidiaries. As is indicated by the interviews carried out with managers of subsidiaries, particularly for MNC subsidiaries with their headquarters in the USA, the emphasis is not only on the introduction of a code of ethics, but also its application in practice in the form of employee behaviour (Palazzo 2002). Part of the successful introduction of a code of ethics into the business practices of US-American MNC subsidiaries is the implementation of the ethical audit, which verifies all the requirements connected with the desired behaviour of employees who have accepted the code of ethics. At present, it is even possible to observe the effective pressure through the extension of the ethical audit to suppliers trying to enter the US market.

This emphasis on complying with business ethics through a code of ethics reveals the differing approaches of subsidiaries from individual national cultures represented by the company's headquarters (Helin/Sandstrom 2007). In this paper we also demonstrated that the introduction of a code of ethics is related to the national culture of the MNC's head office. Another interesting finding is that it is not possible to assume that business ethics will exist in the form of a code of ethics in all MNC subsidiaries which have their headquarters in countries with a fully developed market economy. For example, subsidiaries with their headquarters in countries such as Germany (the largest investor in companies in the Czech Republic) and Austria (the fourth largest investor), do not attach such significance to ethical codes; it is more a matter of them being formally defined, as is shown by the results of some of the research to date (Rottig/Heischmidt 2007). It is also necessary to mention that during the interviews with representatives of the Czech subsidiaries of several globally operating companies, there was evidence of a change in the perception of the ethical behaviour of the subsidiary's employees, as was also shown in a study by Poór et al. (2015). This primarily relates to corrupt or otherwise unethical behaviour by employees that is detrimental both to the subsidiary and to the reputation of the company as a whole. Today, some of these companies have professionally trained staff from the company's headquarters whose job it is to evaluate employees' behaviour in relation to the external environment, conduct training, and assess any potential risks (Schwartz 2005) associated with entry into business areas with a greater susceptibility to corruption (the health service, public tenders). This is due to the legacy of previous scandals which globally operating companies have recently faced in the Czech Republic.

After the years of transformation it is apparent that an important factor is also understanding ethical behaviour as the “right thing to do” (Perini et al. 2007), which is in the self interest of managers (Prahalad/Hammond 2003).

In many discussions with representatives of other businesses and decentralized MNC subsidiaries, people asked whether the acceptance of a code of ethics had a financial benefit for the subsidiary. As was shown in the theoretical introduction to this issue, the conclusions here are ambiguous (Orlitzky 2011). The results which we obtained suggest a correlation between financial performance and the existence of, or method of establishing, a code of ethics. Surprisingly, the most financially successful businesses were MNC subsidiaries with their own code of ethics. The results of the regression analysis show that if a subsidiary has a greater role in establishing its own code of ethics, then it will perform better financially. Therefore, there is a positive relationship between the variables monitored, which, however, is not statistically significant.

In connection with the generalization of the results, some limitations need to be mentioned. At the start of the research, the population set was defined by the limiting parameters in terms of the number of employees and the legal form. Neither the population nor the sample included subsidiaries of up to 50 employees. We are also aware that our conclusions are only valid for MNC subsidiaries which have a branch in the CEE region, specifically in the Czech Republic. It is clear that certain specific characteristics will apply to these companies, such as geographic and cultural proximity or industry orientation. Another limitation relates directly to establishing the sample which was not obtained at random. Nevertheless, from a statistical point of view, it is a sufficiently comprehensive sample which corresponds to the population in the parameters set by the quota. However, for the parameters that could not be identified in the population, the degree of compliance or discrepancy could not be assessed. In our case, this applies to areas where the national culture predominates. We are aware of other limitations to the research carried out. This mainly concerns the evaluation of financial performance based on the standard use of profitability and asset growth as financial indicators. Profit might be distorted by transfer prices paid by the headquarters for the subsidiaries’ output and the associated tax shield (Kranecová 2010). A further limitation of our study is the fact that none of the relationships that we found can be considered a causal type. Neither have we examined the effect of possible confounding variables that might be the real cause of the relationships discovered.

The results presented here provide new information from the hitherto under-researched area of the business ethics of MNC subsidiaries in countries with relatively underdeveloped market economies. This demonstrates that for CSR in companies operating in the CEE region, part of which is also the issue of corporate ethics and the related application of ethical codes, it is still in its infancy in

its application and has not been used to the full range of its potential to support a company's financial performance. This fact opens up significant opportunities for further research into the implementation and reporting of CSR in the companies surveyed (Kašparová 2015).

Likewise, the difference detected in the transference of business ethics (code of ethics) from the MNC head office to the subsidiary in relation to various countries with developed market economies would make a suitable and interesting subject for research (Hsieh 2006), with appropriate comparisons and justifications for the establishment of ethical codes between the subsidiary and the headquarters.

The insights gained here will lead to a better understanding of the transfer of business ethics from the head office in a country with a developed market economy to the host country with a developing market economy in which the MNC subsidiary operates.

Acknowledgements

This work was supported by the Czech Science Foundation grant GACR P403/12/1557.

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