

## **Effect of Ethical Standards of Sales Representatives on Pharmaceutical Companies' Sales in Nairobi City, Kenya**

Emma Anyango Obiero<sup>1</sup>

Chrispen Maende<sup>2</sup>

<sup>1</sup>*Correspondent Author, School of Business, Kenyatta University, Kenya*

<sup>2</sup>*School of Business, Kenyatta University, Kenya*

### **Abstract**

*There is an increased focus on business or corporate ethics. This has been necessitated by the significant impacts of the collapse of companies like Enron Corporation and WorldCom that resulted from unethical practices of the senior management of the companies involved. In Kenya, we have witnessed the collapse of organizations like Triton Kenya, an event that caused significant loss to the Kenyan taxpayer. The local press widely reported that the collapse resulted from unethical practices. The impact of collapsed companies has been so significant that a number of developed countries like the United States of America have enacted legislation in an attempt to curb unethical practices in organizations. The sales representatives in pharmaceutical companies are under increasing pressure from owners and shareholders to perform great exploits and provide ever-growing returns. The historic Sarbanes-Oxley legislation was created due to the public outrage over ethical and financial misconduct by the senior management of companies. The general objective of this study was to investigate the effect of ethical standards of sales representatives on pharmaceutical companies' sales in Nairobi City. As such, the study looked at how individual values, corporate values, moral reasoning and situational influence impact on pharmaceutical companies' sales in Nairobi City. The study collected primary data through a structured questionnaire that was administered to respondents. The study generated both qualitative and quantitative data. The qualitative data was analysed using descriptive statistics. The results were presented using tables, graphs, pie charts and statistical analysis. The output given from the findings indicate that there is a significant positive relationship between the components of ethical standards namely; individual values, corporate values, moral reasoning and situational influence and the pharmaceutical companies performance. The findings also revealed that ethical standards have a direct relationship with pharmaceutical companies' sales and finally improving the performance of pharmaceutical companies in Nairobi City, Kenya. Individual values, corporate values, moral reasoning and situational influence are tasks assigned to sales representatives. The output given from the findings indicate that there is a significant positive relationship between the components of ethical standards namely; individual values, corporate values, moral reasoning and situational influence and the pharmaceutical companies performance. The findings also revealed that ethical standards has a direct relationship with pharmaceutical companies' sales and finally improving the performance of pharmaceutical companies in Nairobi City, Kenya. Individual values, corporate values, moral reasoning and situational influence are tasks assigned to sales representatives. The output given from the findings indicate that there is a significant positive relationship between the components of ethical standards namely; individual values, corporate values, moral reasoning and situational influence and the pharmaceutical companies performance. The findings also revealed that ethical standards has a direct relationship with pharmaceutical companies' sales and finally improving the performance of pharmaceutical companies in Nairobi City, Kenya. The study recommends that*

*pharmaceutical companies in Nairobi City, incorporates ethical standards of sales representatives into the standard operating procedures system. The researcher also recommends that Pharmacy and Poisons Board (PPB) in particular be concerned with trying to integrate and co-ordinate the various internal functional areas to break down those functional boundaries and ensure decisions for areas like Sales, marketing, operations and financial decisions, are all made using the same data.*

**Key Words:** *Ethical Standards, Sales Representatives, Pharmaceutical Companies Sales, Nairobi*

## **1. BACKGROUND OF THE STUDY**

Business Ethics is part of applied ethics, the branch of ethics that examines ethical rules and principles within a commercial context and the various moral or ethical problems that can arise in a business setting. Crane and Matten (2003) state that business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed. It also covers any special duties or obligations that apply to persons who are engaged in commerce. General business ethics overlaps with the philosophy of business, which determines the fundamental purposes of a company. According to Resnik (2005), meta-ethics is the study of the concept of ethics, the nature and justification for moral standards, values, principles, theories and the meaning of moral concepts and term. Normative ethics is the study of moral standards, principles, concepts, values and theories or the study of how to determine ethical values. Applied ethics is the study of the use of ethical values in other words the study of ethical dilemmas, choices, standards in various occupations, professions, situations and application of moral theories and concepts in particular contexts. Resnik (2005) defines business ethics as the branch of ethics that examines ethical rules and principles within a commercial context. Resnik (2005) further defines applied ethics as a discipline of philosophy that attempts to apply 'theoretical' ethics, to actual or real world dilemmas. Applied ethics uses analytical or normative approaches in attempts to solve actual dilemmas. An example is the issue of the need to meet the demands of business owners or shareholders for ever-increasing returns. The need for the organization to achieve the growing results on an on-going basis. The concern that when a company does business with another company that has a reputation for unethical behaviour, and the effect the association may have on the first company's ethical conduct. The challenge for most organizations in business is balancing the opportunity to make bigger returns with the need to uphold ethical principles in their day-to-day dealings and activities. A good example is that the application of business ethics should eliminate exploitation for example, from the use of child labour to produce goods at lower costs (Velentzas & Broni, 2010).

As the global market becomes more and more competitive, the application of stricter business ethics becomes more and more critical given the perceptions of consumers who are becoming more aware and discerning in their decision-making. In other words, we can say that business ethics is the behaviour that a business adheres to in its daily dealings with the world. Business ethics apply not only to how the business interacts with the world at large, but also to their one-on-one dealings with a single customer and activities within the organization itself. Good business ethics should be a part of every business. On the inner workings of the organization, business ethics applies over wide areas including corporate governance, which includes adherence to regulation, the effectiveness of board committees, accurate financial reporting auditing, executive compensation for the leadership of the organization, the role of the CEO in setting ethical standards etcetera. Business ethics approaches can be employed in the corporate culture of an organization focusing on equitability of the application of human resource policies, the adherence to values of the organization, labour and employment practices, ensuring and effective work/life balance for

employees, the behaviour of managers and employees in matters such as honesty. In dealings with the outer world, business ethics principles may be utilized in areas such as the social contract with society at large. This includes implementing and sustaining corporate social responsibility programs, ensuring consumer safety in relation to products produced and marketed by the organization, the need to respect intellectual property rights of others, minimizing corporate wrongdoing for example, bribery and other corrupt activities (Velentzas and Broni, 2010).

In studies that have been conducted in other jurisdiction, ethical standards have been noted to affect performance of companies. The sub components of ethical standards that have an impact on firm performance are discussed as follows. First, most of an individual's value development occurs before entering an organization and are usually learnt very early in life. The influence of family, church, community, and school will determine individual values. McShane and Glinow (2008) state that as an individual, there are three qualities that one has to possess to make effective ethical decisions. The first is the ability to recognize ethical issues as they arise and thereafter to reason through the ethical consequences of any decisions made. The second is the ability to look at alternative points of view and decide what is right in a particular set of circumstances or put differently, the ability to reframe the issue. The third is the ability to deal with ambiguity and uncertainty or in other words, the ability to make a decision based on the best information available.

Second, Davis (2003) notes that corporate values serve as the defining elements around which norms, symbols, rituals and other cultural activities revolve and that values help employees form a social identity that provides meaning and connectedness. Corporate values are shared values that develop trust and link individuals in an organization together. In order that these values are adhered to, they have to be stated as both corporate objectives and individual values. These values will then also form part of the identity of the organization by which an organization is known throughout its business areas. Different corporate entities and their respective leaders will have different sets of values that are to be applied to their specific business situations. Third, it's argued that values alone do not determine ones actions. One's behaviour is also controlled by organizational and social culture, by the influence of significant other people in one's life and moral reasoning. Kohlberg found that the moral reasoning abilities of individuals develop through an invariant or fixed sequence of hierarchical stages. Finally, situational influences relate to the context related factors of the significant influences, where context relates to the organizational context in which one is working that has an impact on ethical decision making. Specifically, the term situational influences relates to expectations and demands placed on individuals within the work environment that are likely to influence their perceptions of what is the morally right course of action to take (Crane, and Matten, 2003). There are three main factors, that is to say, systems of reward, authority and bureaucracy.

## **2. STATEMENT OF THE PROBLEM**

Consumers trust doctors to act in the best interests of their patients. However, most consumers are largely unaware of the influence of the pharmaceutical company's marketing on the very health professionals they rely on. Between 1995 and 2005, the percentage of total spending on sales and marketing was by far the biggest corporate expense for the pharmaceutical company. The excesses of drug marketing are well recognized by company insiders (Consumers International, 2007). A survey conducted by Price Waterhouse Coopers showed 94% of company stakeholders said that pharmaceutical companies spent too much money on advertising. Pharmaceutical companies also employ representatives to visit healthcare practitioners in hospitals and offices to educate, update

and provide samples of recent drugs their companies have produced. As experts on these drugs, they present their products with confidence, assurance and with the ability to answer questions about side effects, insurance coverage, microbial coverage and more. With the understanding that pharmaceutical companies play active roles in marketing their products, it is important to ask, how much influence these companies have on healthcare practitioners' prescribing habits. There has been some controversy with the idea of healthcare providers having periodic contact with pharmaceutical company representatives. Every year more than \$11 billion is spent on drug marketing, with half of the budget funding sales representative's work. It is important to identify the extent of this relationship and its ultimate impact on providers' attitudes, behaviours, and knowledge. It is also important to understand how this potentially affects the patients (Rhee, 2008).

Firms with strong corporate cultures are said to achieve higher results because employees have clear guidance on the expectations of the organization. The employees therefore have a sustained focus both on what to do and on how to do it. This also applies to the ethical context. Organizations with corporate cultures that place a strong emphasis on ethical practices are also likely to achieve better ethical performance (Rhee, 2008). This study therefore looked at how individual values, corporate values, moral reasoning and situational influence impacts on pharmaceutical companies' sales in Nairobi City.

### **3. OBJECTIVES OF THE STUDY**

The general objective of this study was to investigate effect of ethical standards of sales representatives on pharmaceutical companies' sales in Nairobi City.

Specific objectives were:

- i. To establish the effects of individual values of sales representatives on pharmaceutical companies' sales in Nairobi City.
- ii. To determine the effects of corporate values of sales representatives on pharmaceutical companies' sales in Nairobi City.
- iii. To study the effect of moral reasoning of sales representatives on pharmaceutical companies' sales in Nairobi City.
- iv. To determine the effects of situational influences of sales representatives on pharmaceutical companies' sales in Nairobi City.

### **4. THEORETICAL LITERATURE REVIEW**

This section will review two major theories in the field of ethics namely, teleological ethics theories and deontological ethics theories. Further, the section will relate the theories to the ethical standards of sales representatives in pharmaceutical companies in Kenya.

#### **4.1 Teleological Ethics Theories**

The theories of teleological ethics relates to individual values and corporate values. The ethical egoism theory suggests that it is an agent's moral obligation to do what promotes his own good or welfare (Copp, 2006). In the West, virtue ethics' founding fathers are Plato and Aristotle, and in the East it can be traced back to Mencius and Confucius. Teleological ethics argues that people should act in a way that maximizes their own long term interests, that is to say, it suggests putting ones interests first. This would imply that morality is of little value and therefore implies that there is really no need to be ethical. Utilitarianism on the other hand proposes that one should act in a manner that would achieve or maximize good for the greatest number of people. Wainwright (2005) states that Utilitarianism prizes and pursues happiness wherever it is found, including the

unworthy. He states that this theory is guided by rules, namely that everyone is deemed equal irrespective of status, race religion or intelligence, that one always has to take into account the long term consequences of any decisions made and that the “good” must be measured in total. Bradburn (2001) defines Machiavellism as a form of expediency in that one would be expected to do whatever is necessary to get the job done. Scharfstein (1995), states that Machiavellism is the disregard of scruples or the use, limited only by expediency, of every kind of deception or force. This theory in essence overlooks the existence of morals and is often used when tough decisions have to be made, for example, in times of crisis. Teleological moral systems are therefore characterized primarily by a focus on the consequences which any action might have. Thus, in order for medical sales representatives to make correct moral choices, they have to understand what will result from those choices. When choices are made which result in the correct consequences, then they are said to be acting morally; when they make choices which result in the incorrect consequences, then they are acting immorally.

#### **4.2 Deontological Ethics Theories**

The philosopher Immanuel Kant is considered to be the father of deontological ethics, he posits that one should act according to their duty. The theory relates to moral reasoning and situational influences. According to Wainwright (2005), Kant argued that one’s actions should ultimately be expressions of one’s basic commitment to a moral law that is incumbent on all rational beings or that one should act in such a way that “the principles of the action could become a universal law in a world which one would have to live in”. Kant’s view therefore assesses morality by examining the nature of actions rather than goals achieved. This view supports the well-known phrase “do unto others, as you would have them do unto you”. The second view was that one should act in a way that ensures “respect for others as rational and free beings” and that one should make decisions in a large part based on this respect. The English philosopher John Locke held that everybody is born with certain natural rights, which cannot be taken away and should therefore be used as a fundamental grounding for decision-making (Bradburn, 2001). In other words, for whatever decision that has to be made, one has to first take into account any human rights.

The Harvard Philosopher John Rawls developed the concept of “justice as fairness”. Rawls (2005) states that “justice as fairness” is a status quo in which agreements reached are fair. In addition, it is a state of affairs in which the parties are equally represented as moral persons and the outcome is not conditioned by arbitrary contingencies or the relative balance of social forces. Rawls (2005) also prescribed to the idea of the “veil of ignorance” when making decision of an ethical nature and in which one does not know how various alternatives will affect one’s case and that one is then obliged to evaluate a situation on the basis of general considerations. Under this idea, Rawls assumes that one does not know ones sex, race, nationality, individual tastes, place in society, fortune in natural assets, abilities, one’s aversion to risk and economic or political situation. Decisions should therefore be made on a selfless view that has not been influenced by who we are, what we know and our motivations.

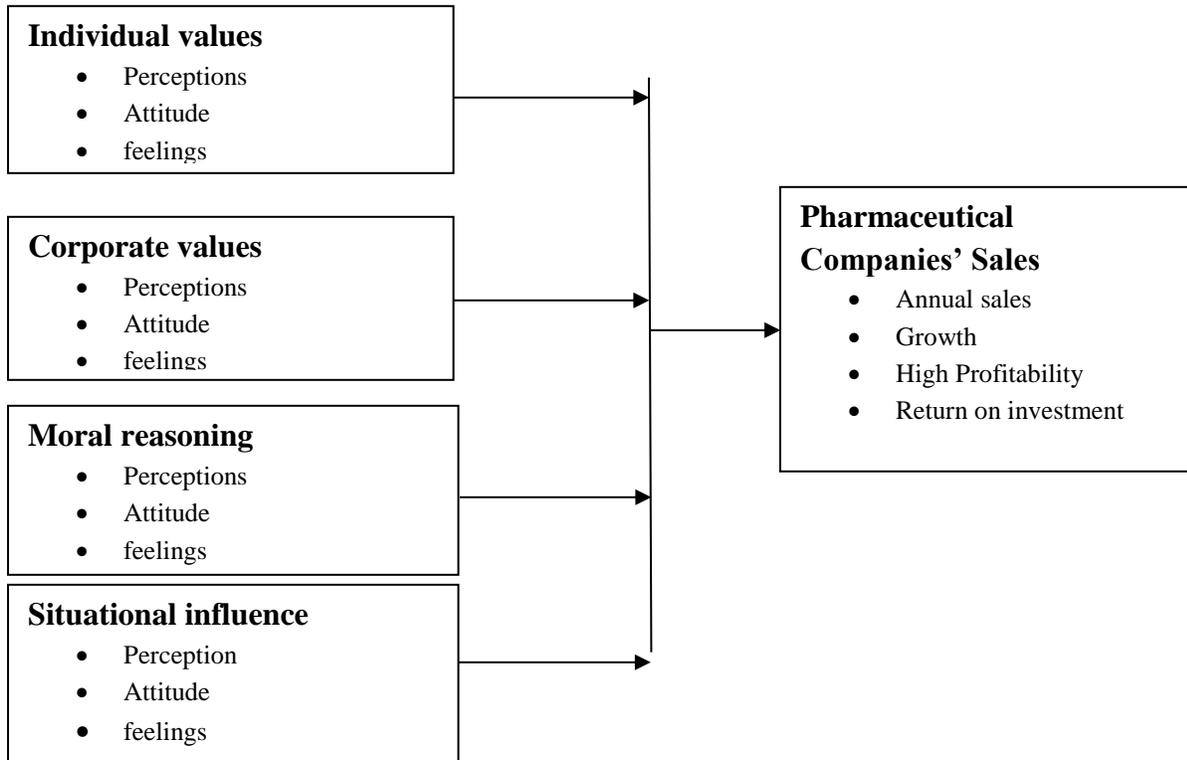
In essence, this view holds that decisions must be made with a level playing field in mind. Ronald Green developed the Neutral Omni partial Rule-Making (NORM) theory, which requires that “conduct must be publicly known and acceptable to all persons in society” as the underlying principle in which moral choice is evaluated (Bradburn, 2001). Green’s view was that decisions must be made not on the majority but on the free consensus of all the people in society. According to Gasparski and Ryan (1996), this approach defines an action as right if each person might reasonably think of that action as being accepted by anyone who looked at the matter in an

informed and abiding form of conduct known by everyone and open to everyone in similar circumstances. This approach takes into consideration the beliefs and feeling of all concerned after which an impartial and neutral decision is taken. Bradburn (2001) states that this theory sees the modern day manager as a rational individual who has to balance competing claims and make normative decisions. The theory of deontology states that we are morally obligated to act in accordance with a certain set of principles and rules regardless of outcome. In Kenya, there exist a variety of rules governing the conduct of medical sales representatives. These rules are promulgated by the professional body of the medical sales representatives. It is therefore imperative that these rules and codes of conduct are maintained for the good of the profession irrespective of the outcome.

## 5. CONCEPTUAL FRAMEWORK

This study adopted a conceptual framework to investigate the effect of ethical standards of sales reps on pharmaceutical companies' sales in Nairobi City, Kenya. Specifically, this study aims to investigate the effect of ethical standards sales representative's namely individual values, corporate values, moral reasoning and situational influences.

### Ethical standards



**Figure 2.1: Conceptual Framework**

According to Wainwright (2005), Kant argued that one's actions should ultimately be expressions of one's basic commitment to a moral law that is incumbent on all rational beings or that one should act in such a way that "the principles of the action could become a universal law in a world which one would have to live in". Kant's view therefore assesses morality by examining the nature of actions rather than goals achieved. This view supports the well-known phrase "do unto others, as you would have them do unto you". The second view was that one should act in a way that

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## **6. RESEARCH METHODOLOGY**

The method of study was a descriptive cross-sectional survey that assessed the same variables across respondents in the pharmaceutical company in Kenya and over a limited period of time. The cross sectional survey was conducted to obtain an assessment of findings from the respondents that enabled the researcher to draw generalizations as to the ethical predisposition of the sales reps in the pharmaceutical company in Kenya. This study adopted the descriptive study design where information on the ethical personal selling standards within the pharmaceutical industry was explored without interfering with the environment. The study required an interaction with the study participants as such; the researcher adopted survey as the method of obtaining information from the study participants. The study therefore adopted a descriptive cross-sectional survey design.

The study targeted medical sales representatives and management staff in the pharmaceutical companies operating in Nairobi County. There were thirty one (31) registered pharmaceutical companies in Nairobi in 2001 (EPZ, 2005), they are all estimated to have a work force of two thousand (2000) employees. Of these, one hundred and thirty seven (137) are both in management and sales representatives. Therefore the target population is 137 employees. The study used stratified random sampling method. The goal of using this method was to achieve desired representation from various subgroups in the population. This study involved 137 respondents in the pharmaceutical companies in Nairobi City. The study picked medical sales representatives and sales managers of each of the selected pharmaceutical firms to take part in the study.

The study used primary data. The primary data was collected through a structured questionnaire that was administered to respondents. The questionnaire was aimed at getting information on the ethical behaviour and practices of sales reps in the pharmaceutical companies surveyed. The questionnaire had structured, closed ended questions and matrix question, to assess views of the respondents. The respondents were sales representatives and the management of the pharmaceutical firms. The data was checked for accuracy and completeness of the recording of the responses. The data was then be coded to allow for statistical analysis and checked for coding errors. The data was then entered, edited and analysed by the use of statistical package for social sciences (SPSS).

## **7. DATA ANALYSIS RESULTS**

Table 1 below shows the Pearson and Spearman’s correlation coefficient generated from the data. Consistent with Shin and Soenen (1998), the spearman's rank correlation coefficients are on the upper right triangle while the Pearson product moment correlation coefficients are on the lower left triangle. Pearson’s Correlation analysis is used for data to see the relationship between variables such as those between individual values and company sales. If the ethical standard is effective in increasing the company’s sales, then a positive correlation will be expected.

**Table 1: Pearson and Spearman’s Correlation Coefficient**

|                           | sales | X1   | X2   | X3   | X4   |
|---------------------------|-------|------|------|------|------|
| Sales Pearson Correlation | 1     | .464 | .298 | .386 | .102 |
| Sig. (2-tailed)           |       | .043 | .133 | .003 | .444 |
| X1 Pearson Correlation    | .464  | 1    | .517 | .633 | .604 |
| Sig. (2-tailed)           | .043  |      | .000 | .000 | .000 |
| X2 Pearson Correlation    | .298  | .517 | 1    | .431 | .832 |
| Sig. (2-tailed)           | .133  | .000 |      | .001 | .000 |
| X3 Pearson Correlation    | .386  | .633 | .431 | 1    | .139 |
| Sig. (2-tailed)           | .003  | .000 | .001 |      | .293 |
| X4 Pearson Correlation    | .102  | .604 | .832 | .139 | 1    |
| Sig. (2-tailed)           | .444  | .000 | .000 | .293 |      |

Where, X1= individual values, X2= corporate values, X3=moral reasoning and X4=situational influence.

The findings from the correlation table above shows that the ethical standards with the average positive correlation with the pharmaceutical companies’ sales is individual values ( $r=0.464$ ) followed by moral reasoning ( $r=.386$ ). This result shows that the pharmaceutical companies should give more attention to developing individual values and enhancing moral reasoning amongst their sales representatives and managers to realize high sales. This is because the two ethical standards are found to have more effect on the pharmaceutical companies’ sales.

## 8. SUMMARY OF FINDINGS

The study sought to find out the extent to which individual values affected ethical standards of sales representatives in pharmaceutical companies in Nairobi City, Kenya. From the findings, individual values had the highest effect on pharmaceutical companies’ sales in Nairobi City, Kenya. On overall, majority of the respondents rated all individual values factors as influencing ethical standards of sales representatives to a strongly agree, agree, undecided, disagree and strongly disagree respectively. Influence of family, church, community, and school, trend of pharmaceutical marketing in Kenya, marketing alongside quality drugs, education, personal and organizational values are factors affecting ethical standards of sales representatives in pharmaceutical companies in Nairobi City, Kenya. The study therefore, concluded that factors such as influence of family, church, community, and school, trend of pharmaceutical marketing in Kenya, marketing alongside quality drugs, education, personal and organizational values influenced how individual values affected ethical standards of sales representatives in pharmaceutical companies in Nairobi City, Kenya.

The study sought to find out the extent to which corporate values affected ethical standards of sales representatives in pharmaceutical companies in Nairobi City, Kenya. From the findings, the respondents indicated that corporate values though affected sales performance of pharmaceutical companies in Nairobi City, Kenya, but not that strongly as individual values. The study sought to

find out the extent to which moral reasoning affected ethical standards of sales representatives of pharmaceutical companies in Nairobi City, Kenya. The findings indicated that moral reasoning of sales representatives and managers had the second strongest effect on pharmaceutical companies' sales in Nairobi City, Kenya. The study sought to find out the extent to which situational influence affected ethical standards of sales representatives in pharmaceutical companies in Nairobi City, Kenya. From the findings of the study, the respondents indicated that situational influence factors affected ethical standards of sales representatives and subsequently performance of pharmaceutical companies in Nairobi City, Kenya albeit weakly. The study findings showed all the four variables of ethical standards had an effect on the sales representatives in pharmaceutical companies in Nairobi city, Kenya. Two variables namely individual values and moral reasoning had the highest contribution to the overall firm performance.

## **9. CONCLUSION**

The aim of this study was to explore the effect of ethical standards of sales representatives on pharmaceutical companies' sales in Nairobi City, Kenya. Based on previous studies the components of ethical standards were expected to have positive relation with performance of pharmaceutical companies in Nairobi City, Kenya. The output given from the findings indicate that there is a significant positive relationship between the components of ethical standards namely; individual values, corporate values, moral reasoning and situational influence and the pharmaceutical companies performance. The findings also revealed that ethical standards has a direct relationship with pharmaceutical companies' sales and finally improving the performance of pharmaceutical companies in Nairobi City, Kenya. Individual values, corporate values, moral reasoning and situational influence are tasks assigned to sales representatives.

## **10. RECOMMENDATIONS**

Pharmaceutical companies in Nairobi City, Kenya need to incorporate ethical standards activities of sales representatives into the standard operating procedures system. This will enable them to improve the overall performance of their companies. The pharmaceutical companies need to find out ways of encouraging employees to follow ethical standards systems of the company. If employees are encouraged to use the set ethical standards, adoption of the same will greatly improve. The researcher recommends that Pharmacy and Poisons Board (PPB) in particular should be concerned with trying to integrate and co-ordinate the various internal functional areas to break down those functional boundaries and ensure decisions for areas like Sales, marketing, operations and financial decisions, are all made using the same data. Customer Relationship Management systems can also be used to co-ordinate the pharmaceutical companies by ensuring better practices. It has been commonly accepted that ethical standards be incorporated by the controlling body to control unethical behaviours of sales representatives in the pharmaceutical companies. In line with this notion, the development of standard operating procedures by the pharmaceutical companies in Kenya is considered to be an innovation strategy action.

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