

# The Nature of the Relationship between Corporate Codes of Ethics and Behaviour

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**ABSTRACT.** A study was conducted in order to examine the relationship between corporate codes of ethics and behaviour. Fifty-seven interviews of employees, managers, and ethics officers were conducted at four large Canadian companies. The study found that codes of ethics are a potential factor influencing the behaviour of corporate agents. Reasons are provided why codes are violated as well as complied with. A set of eight metaphors are developed which help to explain how codes of ethics influence behaviour.

**KEY WORDS:** behaviour, codes, effectiveness, employees, ethics

## Introduction

What one immediately discovers upon entering the foray of the business ethics field is that illegal and unethical activity by corporate agents has the potential to have a significant negative impact on the welfare of society. Some of the more classic examples of such impact include the decision by the Ford Motor Company not to recall its Pinto model, the asbestos-related deaths of

Johns-Manville's employees, the poisonous leak killing thousands living next to a Union Carbide plant in Bhopal, India, and the environmental catastrophe caused by the oil leak from the Exxon Valdez tanker. More recent examples include the fraud leading to the collapse of Barings Bank, the racial discrimination "jelly-bean" fiasco at Texaco, and the moral failings of the U.S. tobacco industry.

One estimate is that the total social costs of U.S. corporations and other businesses that must be borne by employees, customers, communities, and society (including such categories as worker accidents, consumer injuries, pollution, and crime) comes to approximately two and a half trillion dollars per year (Estes, 1996, p. 178).

Despite the high cost to society, many employees appear unwilling to take action when they observe unethical activity. A study by the Ethics Resource Center of over four thousand U.S. employees found that thirty percent of the employees had observed misconduct at work in the last year which violated the law or company policy (1994, p. 22). Of those employees who did observe misconduct, less than half actually reported such misconduct to an appropriate person in the company (1994, p. 23).

The fact that unethical activity by corporations can have significant costs, while the majority of employees who observe misconduct choose to remain quiet, raises the following question: "What can be done to prevent corporate misconduct from occurring in the first place?" Although some have argued that a free market system operating within a legislative regime should be sufficient to prevent misconduct (e.g., Levitt, 1958; Friedman, 1970), others have argued that for a variety of reasons such con-

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straints are insufficient (e.g., Arrow, 1973; Stone, 1975). What is common to both positions, however, is that *self-regulation* by corporations is not only permissible, but potentially economically mandated (i.e., if good for the bottom line) or ethically obligatory (i.e., if laws are insufficient). As a result, one might be interested in knowing what companies are doing to help prevent misconduct by their agents.

This concern leads to the discovery that companies, for a variety of reasons, are just beginning to engage in formal measures to self-regulate. Such efforts are identified as compliance or ethics programs (Brenner, 1992; Paine, 1994). At the core of virtually all of these efforts is the existence of a certain type of corporate document, typically referred to as a *code of ethics* (Ethics Resource Center, 1990a, 1994; Murphy, 1988; Montoya and Richard, 1994). A certain degree of confusion remains as to what a code of ethics consists of. Codes of ethics have also been referred to as codes of conduct, codes of practice, corporate credos, mission statements, or values statements (Berenbeim, 1988; Clarkson and Deck, 1992; Driscoll et al., 1995; Ethics Resource Center, 1990a; L'Etang, 1992; Murphy, 1989, 1995; Stevens, 1992, 1994). Although many definitions of a code of ethics have been provided (Berenbeim, 1987; Hosmer, 1991; Harris, 1978; Pitt and Groskaufmanis, 1990; Robertson and Schlegelmilch, 1993; Stevens, 1994; Townley, 1992; Weaver, 1993), for the purposes of the study a code of ethics is considered to be a written, distinct, and formal document which consists of moral standards used to guide employee or corporate behaviour.

Codes are now prevalent around the world, at least among large corporations. In the U.S., over ninety percent of large corporations have a code of ethics (Center for Business Ethics, 1992), while in Canada eighty-six percent have a code (KPMG, 2000). Of the largest European corporations, fifty-seven percent of U.K. companies have a code (Le Jeune and Webley, 1998), fifty-one percent of German companies have a code (Schlegelmilch and Langlois, 1990), and thirty percent of French companies have a code (Schlegelmilch and Langlois, 1990). The prevalence of codes should continue to increase as

governments, industry associations, professional associations, and special interest groups increasingly call for the establishment of corporate codes of ethics (Izraeli and Schwartz, 1998; Schwartz, 1996).

At the same time, the development of codes has involved significant expense. According to one commentator, since the 1970s “. . . corporations have invested a substantial amount of energy in revising their ethics statements” (Murphy, 1995, p. 727). Pitt and Groskaufmanis (1990, p. 1634) state that “Adopting corporate codes (and the compliance programs that inevitably accompany them) is costly.” Murphy (1989, p. 87) notes that “. . . Companies . . . have spent countless hours – and substantial amounts of money – developing, discussing, revising, and communicating the ethical principles of the firm.” According to Jordan (1995, p. 304), companies “. . . have spent millions of dollars designing, implementing, and enforcing their corporate codes.”

Companies use codes for a number of reasons including the provision of consistent normative standards for employees, avoidance of legal consequences, and promotion of public image (Ethics Resource Center, 1980, 1990b). By carefully analyzing various samples of codes, researchers have discovered which issues are more prevalent, and which ones are missing (White and Montgomery, 1980; Chatov, 1980; Cressey and Moore, 1983; Sanderson and Varner, 1984; Mathews, 1987; Hite et al., 1988; Ethics Resource Center, 1990b; Lefebvre and Singh, 1992). Many have provided reasons both for and against the use of codes (Murphy, 1995; Stevens, 1994; White and Montgomery, 1980).

The above research suggests that codes are now prevalent, have come at some expense, and are used for a variety of reasons. Yet despite their prevalence, many still question the need for codes. Such research comes back to what might be considered the fundamental research question regarding codes: *Are codes actually effective in influencing behaviour?*

Several theorists have suggested that ethical decision making or behaviour can be influenced by a code of ethics. Ferrell and Gresham (1985) as part of their “contingency model” suggest that:

“Ethics related corporate policy will influence ethical/unethical behavior . . . Corporate policy and codes of ethics that are enforced will produce the highest level of compliance to established ethical standards” (1985, p. 93). Trevino (1986) introduces a “person-situation interactionist” model of ethical decision making. She includes codes as part of the corporate culture variable. She states that: “Another way organizations attempt to guide members’ ethical behavior is by developing formal codes of ethical conduct” (1986, p. 613). Brass et al. (1998) develop a “social network model of unethical behaviour.” One of the organization’s factors influencing behaviour includes codes of conduct, which “. . . can significantly decrease the prevalence of unethical behavior in organizational contexts” (1998, p. 15).

A number of studies (see Table I below) have

been conducted in an attempt to verify if codes are in fact a variable which influence behaviour. The results of the studies are clearly mixed. Several studies (8/19) have found that codes are effective. Other studies (2/19) have found that the relationship is weak, while numerous other studies (9/19) have found that there is no significant relationship between the two variables.

*Summary:* Although the above studies have moved theoretical and empirical research focusing on codes of ethics further, the research remains inconclusive regarding the impact of codes on behaviour. Part of the reason for this may involve the methodology being used, and the focus of the research. As a result, a number of research gaps remain. The gaps relate to three issues: (1) the identification of actual examples of modified behaviour due to codes; (2) an exam-

TABLE I  
Empirical research on code effectiveness

Author(s) (year)	Respondent	Research methodology	Finding
<b>Significant relationship</b>			
Ferrell and Skinner (1988)	Marketing researchers	Questionnaire	“Existence of codes related significantly to greater perceived ethical behavior; Enforcement of codes significantly related to higher ethical behavior for data subcontractors and research firms, but not corporate researchers.” (p. 106)
Hegarty and Sims (1979)	91 graduate business students	Lab experiment	“An organizational ethics policy had a deterring influence on unethical behavior.” (p. 337)
Kitson (1996)	17 Bank managers	Interviews	“. . . a significant number of managers have been influenced in their behaviour by the existence of the Ethical Policy.” (p. 1026)
Laczniak and Inderrieden (1987)	113 MBA students	In-basket exercise	Codes by themselves have little impact; Codes plus sanctions leads to more ethical behavior. (p. 304)
McCabe, Trevino, and Butterfield (1996)	328 college graduates	Questionnaire	“The existence of a corporate code of ethics was associated with significantly lower levels of self-reported unethical behavior in the workplace.” (p. 471)
Pierce and Henry (1996)	356 data processing management professionals	Questionnaire	“The results show that a formal company code of computer ethics has an impact on decision making.” (p. 434)

TABLE I (Continued)

Author(s) (year)	Respondent	Research methodology	Finding
Rich, Smith, and Mihalek (1990)	264 management accountants	Questionnaire	"The company code of conduct influenced the [ethical] behavior [of respondents]." (p. 35)
Singhapakdi and Vitell (1990)	Marketing managers	Questionnaire	Ethical policy determines the extent to which sales executives see ethical problems.
<b>Weak relationship</b>			
Murphy, Smith, and Daley (1992)	149 Managers	Questionnaire	"There is a weak relationship between the existence of ethical codes and ethical behavior." (p. 18)
Weeks and Nantel (1992)	309 salespeople from single company	Questionnaire	"A well communicated code of ethics may be related to ethical sales force behavior." (p. 757)
<b>Insignificant relationship</b>			
Akaah and Riordan (1989)	420 marketing professionals	Questionnaire/ Scenarios	"A code of ethics . . . lacks significance as a correlate of research ethics judgments." (p. 119)
Allen and Davis (1993)	207 national business consultants	Questionnaire	". . . results suggest that unless ethical codes and policies are consistently reinforced with a significant reward and punishment structure and truly integrated into the business culture, these mechanisms would be of limited value in actually regulating unethical conduct." (p. 456)
Badaracco and Webb (1995)	30 middle managers	Interviews	Codes of ethics ". . . seemed to make little difference." (p. 14)
Brief, Dukerich, Brown, and Brett (1996)	145 managers	Questionnaire/ In-basket exercise	". . . codes of corporate conduct per se do not appear to work . . . our findings provided no support for the assertion that codes reduce the likelihood of fraudulent financial reporting." (p. 192)
Callan (1992)	226 state government employees	Questionnaire	"Employees' awareness and regular use of the organization's code of conduct generally proved to be poor predictors of ethical values." (p. 768)
Chonko and Hunt (1985)	1,076 marketing practitioners	Questionnaire	"The existence of corporate codes of ethics seems to be unrelated to the extent of ethical problems perceived by marketing managers." (p. 356)
Clark (1998)	150 graduate and undergraduate business students	Questionnaire	". . . corporate codes of ethics are not influential in determining a person's ethical decision making behavior." (p. 619)
Ford, Gray, and Landrum (1982)	Managers	Questionnaire	"The presence of the code had little or no effect on the behavior of the respondents." (p. 53)
Hunt Chonko, and Wilcox (1984)	1076 marketing researchers	Questionnaire	"The presence of a corporate code of conduct seems to be unrelated to the extent of ethical problems in marketing research." (p. 319)

ination of employee motivations for code compliance or non-compliance; and (3) the exploration of the means by which codes influence behaviour. Each of these gaps and resulting research questions will now be discussed.

### Research questions

To further explore the relationship between codes and behaviour and address these gaps, a study was conducted which attempts to answer three questions: (1) Do codes influence behaviour?; (2) What are the reasons why codes are complied or not complied with?; and finally (3) How do codes influence behaviour?

The first research question simply continues the investigation into the potential impact of codes on ethical decision-making and behaviour, searching for actual examples of modified behaviour. The laboratory studies identified above, while helpful, tend to consist merely of two sets of subjects being asked to resolve a series of hypothetical dilemmas, with only one set of subjects being given a hypothetical code of ethics to consider. Such studies face the limitation of not involving an actual corporate setting. The lack of identifying actual corporate examples of modified behaviour resulting from the implementation of a code appears to be a glaring gap in the research on code effectiveness which the study attempts to address.

With respect to the second research question, although there is a growing body of literature which addresses the factors which influence ethical decision making (Ford and Richardson, 1994), none of the research has focused specifically on the reasons why codes are complied or not complied with. In other words, once an employee becomes aware of the ethical standards as indicated in their company's code, why is it the case that employees decide to comply or ultimately not to comply with the code? This second research question is intended to provide additional clarification on employee motivations which influence their decision to abide by or violate their code.

With respect to the third research question, unfortunately, the descriptive theoretical models

which propose that codes are a factor which influence behaviour do not indicate the *process* or *means* by which codes influence behaviour. Empirical research has also not yet fully explored this area of concern. Is there a direct relationship between codes and behaviour, or can it be indirect? How does the influence take place? Are there different modalities of influence?

Taken together, all three research questions attempt to provide richer and deeper theory and data in order to begin to explain the 'black box' which currently exists between the two variables of codes and behaviour (see Figure 1 below).

### Methodology

The study consisted of fifty-seven in-depth, semi-structured interviews of employees, managers, and ethics officers at four large Canadian companies. The selection of respondents was random for three of four of the companies, while a snow ball technique was used for the fourth company. Of those contacted, 92% agreed to be interviewed. A total of 58% of the respondents were male (33/57), while 42% were female (24/57). In terms of organizational level, 60% of the respondents were managers (34/57), while 40% were non-managers (23/57). Of the managers, 15% (5/34) labeled themselves senior managers. Seven of those interviewed were ethics officers, meaning that they were responsible for the administration of the code. The types of positions of the non-management respondents included: telephone operators, sales representatives, bank tellers, administrative assistants, and assemblers on the production line. The range of time working for the company ranged from 3 months to 33 years, with an average of 13.4 years spent at the company. All of the participants were

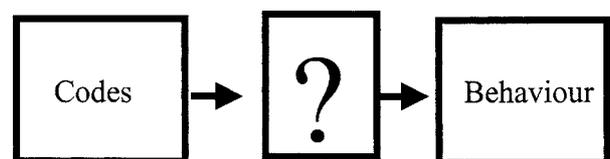


Figure 1. The 'Black Box' between codes and behaviour.

individually interviewed by the researcher, with 51 of the interviews being taped and transcribed. The average length of the interviews was 65 minutes.

The companies represent a variety of industries: telecommunications; banking, manufacturing, and high technology. They are among Canada's largest companies, each earning billions in revenues and having tens of thousands of employees. Three of the four companies conduct multi-national activities. One of the companies was the subsidiary of a U.S. parent company. The companies fall within the upper echelon with respect to having well-developed ethics programs in relation to other Canadian companies, each possessing an ethics officer as well as conducting training on their codes. The selection of companies with extensive ethics programs was intentional, as it was presumed that employee awareness of their companies' codes and the codes' potential impact on behaviour would be more likely in companies with training and ethics officers than in those without (Ethics Resource Center, 1994). A review of the four companies' codes suggests that their orientation was both value-based and compliance-based (see Paine, 1994; Trevino et al., 1999). Each companies' code initially identified a set of five to seven core values or principles, in addition to more detailed provisions of expected behaviour. The length of the codes varied from 21 to 65 pages.

The interview-based methodology was chosen to move the investigation of the relationship between codes and behaviour beyond questionnaires into an actual corporate setting involving the actual users of the code. Out of the nineteen empirical studies addressing the effectiveness of codes of ethics, only two studies used an interview-based methodology, each only focusing on managers. A total of fourteen studies used survey questionnaires, while two used an in-basket exercise, and one a lab experiment. The study also included for the first time those who are responsible for the administration of codes, the ethics officers.

## Findings

As a preliminary issue, the study first examined the extent to which the code had penetrated into the minds of the employees. Employee penetration is understood to mean the extent to which employees are *aware* as opposed to *unaware* of their code's ethical standards.

To assess the level of *penetration*, four questions were used. First, respondents were asked whether they believed other employees were aware of the existence of their company's codes. Virtually every respondent indicated that they had been aware of the existence of the code, even prior to the request for an interview, and that they believed all of the other employees were aware of the existence of the code. At one company, a respondent stated that: "They'd have to be brain dead not to have heard of it."

Second, respondents were asked whether they had read the code document. One might assume that in order for codes to have a potential impact on employee behaviour, employees must have read the document at some point. The study did find that some respondents had read the entire document prior to the interview, while a few others had never read the document at all. Most respondents, however, had never taken the time to read the entire document. More often than not, they had merely skimmed through the document or had taken a quick look at the table of contents.

Third, respondents were asked whether they knew the location of their code document. What the study, found, however, is that only approximately one-half of the respondents knew the exact location of their copy of the code. When asked about other employees, the number increased to two-thirds who probably do not know the location of their copy of the code. Several employees indicated that the document could even have ended up in the garbage.

Fourth, respondents were asked what they remembered of their code's content. Although employees were not given any sort of formal test during the interviews on their memory of the content of the code, they were asked, "Do you remember what's in the code?" followed by the question, "What provisions stand out for you?"

Although many respondents indicated that they had read the entire document or at least skimmed through it, the reading sessions lose their significance if the employee quickly forgets what was read. The study found, however, that many respondents, despite only having skimmed their code, were able to recall at least a few key provisions. At the same time there were also many respondents who appeared to have some difficulty recalling what the code in fact dealt with. Somewhat surprisingly, despite the ethics officers working with their company's codes every day for several years, ethics officers at three of the four companies indicated that they could only remember one or two of their company's five to seven core values or principles.

As a final preliminary issue, respondents were asked whether they were aware of anyone who is or was in violation of the code, and to provide examples if possible. Many examples of misconduct were provided including: stealing, fraud, sexual harassment, conflict of interest, misappropriation of company funds, breach of confidentiality, abusing expense accounts, falsifying records, drinking on the job, racism, and downloading pornography. The responses help substantiate the proposition that clearly the establishment of codes has not precluded unethical activity (i.e., activity which would be considered a violation of the code).

#### *Research Question One – Do codes influence employee behaviour?*

The data suggests that codes have the potential to directly influence behaviour, however, this appears to take place on very rare occasions. Overall, few respondents were able to provide specific examples of where they acted differently as a result of the code. The vast majority indicated that the code had not modified their behaviour, and several indicated that they had never referred to their code. Reasons provided for this include the fact that respondents: (a) believed they already know what is right and wrong behaviour; (b) the code is merely common sense; and (c) respondents believed they had never faced an ethical dilemma.

The two most compelling pieces of evidence that codes can directly influence behaviour were: (a) the examples provided by some of the respondents regarding behaviour which they had modified; and (b) the number of questions received by ethics officers from employees regarding the codes.

(a) *Respondents' Examples:* The fact that at least a few respondents did provide specific examples of behaviour which they themselves had modified as a direct result of the code points to the potential codes have to directly influence behaviour. Examples provided include: disparaging the competition; avoiding conflicts of interest; avoiding business in restricted countries; releasing information; or public discussions as an employee. An even greater number of respondents indicated that there were instances when they or others had at least referred to the code for guidance on how to behave. Examples provided include: gifts and entertainment; obligations to customers; and employment equity issues. A review of the types of examples provided suggest that it is those areas of activity which are "grey" and not "black and white" (e.g., fraud or theft) where the code would potentially influence behaviour.

(b) *Ethics Officers:* The fact that ethics officers indicated that they had received numerous questions and queries regarding their codes points to the code's influence in causing at least some employees to be concerned over appropriate behaviour. Assuming, as the ethics officers did, that their guidance was at least occasionally acted upon, the code can be said to have directly influenced employee behaviour.

#### *Research Question Two – What are the reasons why codes are complied or not complied with?*

There were a number of reasons provided why codes are complied or not complied with. In terms of non-compliance with the code, the respondents identified five reasons: (a) self-interest (i.e., greed, being a star, financial distress, avoid harassment); (b) dissatisfaction (i.e., with

one's job or level of reimbursement); (c) environment (i.e., peer pressure, supervisors' behaviour, opportunity); (d) company's best interest; and (e) ignorance (i.e., never aware, didn't perceive, forgot). Employees tend to comply with the code due to: (a) personal values; (b) fear of discipline; and (c) a feeling of loyalty to the company.

Table II below summarizes typical responses

given by respondents in terms of why they or others would violate their code of ethics:

Table III below summarizes typical responses given by respondents in terms of why they would comply their code of ethics.

Upon examination, several of the above factors may be related. For example, one might speculate whether an increased presence of personal values, fear of discipline, or job loyalty, might

TABLE II  
Possible rationalizations for code non-compliance

General factor	Specific reason	Sample statements
(1) Self-interest	(a) Greed	"It is greed that makes people do a lot of wrong things."
	(b) Being a star	"Wanting to be the best, wanting to beat your peers, being the top."
	(c) Financial distress	"Sometimes it is just that they need the money."
	(d) Avoid harassment	"I don't need the hassle."
(2) Dissatisfaction	(a) Job	"If you are not happy with your job."
	(b) Compensation	"[I] imagine they just justify it in their own minds that 'I deserve this'."
(3) Environment	(a) Peer Pressure	"I might start to think this is obviously now an acceptable behaviour."
	(b) Supervisors	"If a manager is indifferent to lapses . . . people might be influenced."
	(c) Opportunity	"They just think they can get away with it."
(4) Company's interest		"Maybe it's in the best interests of the company at that particular time, or so the employee thought."
(5) Ignorance	(a) Never knew	"I think sometimes it is ignorance . . . nobody ties you down and makes you read it."
	(b) Didn't perceive	"We've had situations where the particular situation just didn't register as a potential . . . violation."
	(c) Forgot	". . . people do have a tendency to forget certain things."

TABLE III  
Possible reasons for code compliance

General factor	Sample statements
(1) Personal Values	"I comply with the code because I've been brought up that way."
(2) Fear of Discipline	"Because I'm scared to death to lose my job."
(3) Feeling of Loyalty	"Out of loyalty . . . I am not going to go out and bite the hand that feeds you type of thing."

diminish the impact greed, opportunity, and dissatisfaction have in influencing behaviour. It may also be the case that not only would the presence of each of these factors increase compliance or non-compliance with the code, but that the non-presence of any of the factors may also increase compliance or non-compliance as well. For example, if the factors of self-interest, dissatisfaction, environment, company's interest, and ignorance were not present, code compliance may be enhanced. If the factors of personal values, fear of discipline, and loyalty to the company were not present, code non-compliance might increase.

*Research Question Three: How do codes influence employee behaviour?*

In terms of the manner in which codes can influence behaviour, the study found that eight themes or metaphors emerged from the interview data which help to explain how codes can influence behaviour: (1) as a *rule-book*, the code acts to clarify what behaviour is expected for employees; (2) as a *sign-post*, the code can lead employees to consult other individuals or corporate policies to determine whether certain behaviour is appropriate; (3) as a *mirror*, the code provides employees with an opportunity to confirm whether behaviour is acceptable to the corporation; (4) as a *magnifying glass*, the code suggests a note of caution to employees to be more careful or engage in greater reflection before acting; (5) as a *shield*, the code acts in a manner which allows employees to better challenge and resist unethical requests; (6) as a *smoke detector*, the code leads employees to try to convince others and warn them of their inappropriate behaviour; (7) as a *fire alarm*, the code leads employees to contact the appropriate authority and report violations; and finally (8) as a *club*, the potential enforcement of the code causes employees to comply with the code's provisions. Table IV below provides sample quotes for each of the metaphors and an indication of how behaviour is modified.

The code metaphors help to demonstrate that codes have the ability to influence behaviour in

several distinct fashions. In some cases, the influence can be direct, such as when an employee consults the code and then acts accordingly (e.g., rule-book). In other cases it may be indirect, such as when another employee, who has previously looked at the code, warns an employee that their behaviour is inappropriate (e.g., smoke detector) and the employee then modifies his or her behaviour as a result.

As a follow-up to the original study, and in an attempt to preliminarily assess the validity of the emergent metaphors, nine ethics officers across the four companies were asked to what extent they were surprised by the eight metaphors (1 – not surprised; 3 – somewhat surprised; 5 – extremely surprised). The following were the average responses (i.e., from least surprising to most surprising): Fire Alarm (1.22); Sign-post (1.22); Mirror (1.33); Rule-book (1.33); Club (1.44); Magnifying Glass (1.66); Shield (2.22); and Smoke Detector (2.33). Overall, it appears at least initially that the metaphors which emerged from the data did not overly surprise any of the ethics officers.

In addition, the nine ethics officers were asked to rank order which metaphors they believed actually predominated in their organizations and which ones they wanted to predominate. Although significant differences existed for the predominance for several of the metaphors across all four companies (e.g., Club: 1–8; Sign-post: 1–7; Smoke Detector: 2–8), the following metaphors were considered to actually predominate from most to least (i.e., average rank order): (1) Rule-book; (2) Sign-post; (3) Mirror; (4) Fire Alarm; (5) Magnifying Glass; (6) Club; (7) Smoke Detector; and (8) Shield. The average rank order for desired predominance was quite similar to actual predominance: (1) Sign-post; (2) Rule-book; (3) Mirror; (4) Magnifying Glass; (5) Fire Alarm; (6) Club; (7) Shield; and (8) Smoke Detector. Although preliminary, one might question why at least at these firms the rule-book and sign-post metaphors were considered overall to be the most predominate and desirable, while the smoke detector and shield were considered to be the least predominate and desirable.

Figure 2 below illustrates the relationships which transpire if the reasons why codes are

TABLE IV  
Summary of code metaphors

Metaphor and definition	Sample quotes	How behaviour is modified
(1) Rule-book Webster's: "A rule is "a prescribed . . . guide for conduct or action" (1993, p. 1986)	<ul style="list-style-type: none"> <li>• "[The code] tells you <i>what is expected</i> of you, what is right from wrong."</li> <li>• "The code sets out the <i>parameters</i> . . . what is appropriate and what is not appropriate."</li> </ul>	Employee reads code and acts accordingly
(2) Sign-post Webster's: "A post at a crossroad or junction, with arms showing directions . . . to places" (1987, p. 925)	<ul style="list-style-type: none"> <li>• "[The code] tells us where to turn if we've got questions."</li> <li>• "It gives some guidance on <i>where to go</i>."</li> </ul>	Code leads employee to speak with manager or ethics officer; employee then acts accordingly
(3) Mirror Webster's: "To reflect or behold" (1993, p. 1441)	<ul style="list-style-type: none"> <li>• [The code] sort of <i>validated</i> that I was thinking along the right line."</li> <li>• "[The code] has <i>reinforced</i> my own beliefs . . . in a much more black and white format."</li> </ul>	Confirmation that company supports behaviour can increase likelihood of compliance with other required behaviour
(4) Magnifying Glass Webster's: To magnify is "to make something appear larger or more important" (1987, p. 599)	<ul style="list-style-type: none"> <li>• "I think [the code] makes you <i>think about it a little more</i> . . . what's within the boundaries . . ."</li> <li>• "I have become . . . <i>more sensitive</i> to issues . . . <i>more careful</i> of what I say and how I say it."</li> </ul>	Likelihood of unintentional violation or creating perception of violation with the code is reduced
(5) Shield Webster's: "To protect or defend . . . from danger or anything hurtful or disagreeable" (1987, p. 775)	<ul style="list-style-type: none"> <li>• "[The code] supports the individuals who believe already in the right things and that they've got something behind them that . . . can <i>back them up</i>."</li> <li>• "I wouldn't have any qualms about <i>flashing the code in someone's face</i>."</li> </ul>	Code increases ability to resist unethical requests
(6) Smoke Detector Webster's: "An instrument for . . . determining the existence [of smoke] (1987, p. 260; 1993, p. 616)	<ul style="list-style-type: none"> <li>• "All the time you just hear them chatter and say 'No, <i>it's against the code</i>, no you can't do that, the code says this' . . ."</li> <li>• "Maybe we would tap her on the shoulder and <i>give her a little reminder</i> of the code of ethics."</li> </ul>	When employee is warned, greater chance they will cease unethical behaviour
(7) Fire Alarm Webster's: "A signal given on the breaking out of a fire" (1993, p. 854)	<ul style="list-style-type: none"> <li>• "I immediately <i>went to my manager</i> and [asked] 'Do we have an integrity issue here?'"</li> <li>• "[One could] <i>go to that person's manager</i> and say . . . 'I think there's something here that could embarrass the company.'"</li> </ul>	Action may be taken to end behaviour which may also have a deterrent effect on others
(8) Club Webster's: "Something as a threat . . . used as a weapon of attack or intimidation" (1993, p. 430)	<ul style="list-style-type: none"> <li>• "There has to be some sort of <i>law</i> . . . even if you don't read it, just so people know there is a law."</li> <li>• "I would fully expect to be <i>fired</i> . . . if I'm not in compliance with the code."</li> </ul>	Threat of potential discipline leads to modified behaviour

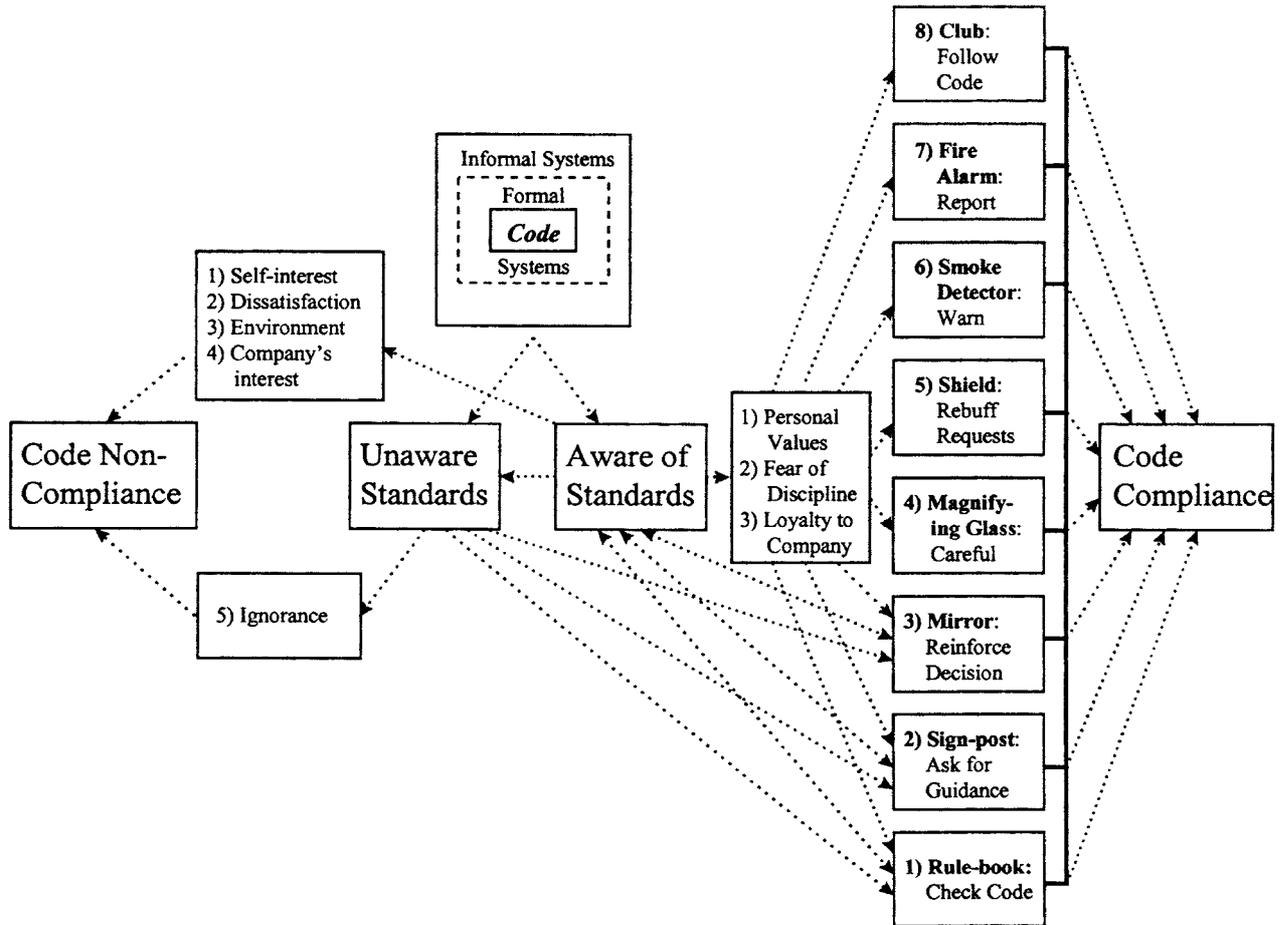


Figure 2. Summary of reasons for code compliance and code metaphors.

complied or not complied with and the code metaphors are assimilated together.

**Discussion**

*Practical implications of research*

The findings of the study might be used by those outside the academic community for a number of purposes. The reasons for compliance or non-compliance which the study identified can be reflected upon by corporate management to assess whether any of these factors can be modified to help ensure compliance with the code. The following provides some possible suggestions for addressing each of the various reasons.

*Reasons for code non-compliance*

*Self-Interest* (i.e., greed, star performer, financial distress, avoid harassment): In most cases corporations will not be able to modify the level of self-interest of employees. If an employee is inherently greedy, this would be difficult to influence. On the other hand, companies can attempt to exercise caution in creating incentives for employees to be identified as “stars” by using “President’s Clubs” or financial bonuses for stellar performance. Certainly, those that violate the code should not be rewarded by receiving additional recognition or financial compensation. For those employees who may be under the impression that “minor breaches” such as personal long distance calls or additional drinks on the company’s tab do not harm the company, an edu-

educational awareness initiative might be in order. Employees who are observed or suspected to be under financial distress could be encouraged to seek appropriate financial counseling. Many larger companies, such as those which took part in the study, are providing such services in-house. Employees should also be instructed that avoiding harassment from a stakeholder such as a customer is not a sufficient reason to violate the code.

*Dissatisfaction:* Internal employee surveys may help establish the current level of dissatisfaction among employees, either with one's job or level of compensation. High levels of dissatisfaction may correlate with an increased potential for code violations and should be dealt with directly by identifying the cause of the dissatisfaction. For example, cutting fringe benefits may help cut costs but may also increase the propensity for code violations.

*Environment* (i.e., peer pressure, supervisors, opportunity): Little can be done to address unethical peer pressure by employees other than trying to enforce the code while at the same time attempting to enhance the ethical climate within the organization. Supervisors or managers who are condoning violations or themselves are engaged in violating the code, on the other hand, must be dealt with immediately by the company when such activity is discovered. The enforcement process itself is what reduces the opportunity for code violations by increasing the probability of getting caught.

*Company's interest:* An educational effort as well as words and actions by senior management can help ensure employees are not under the impression that the company's financial interests take priority to the code's provisions.

*Ignorance:* Potential ignorance can be addressed primarily by the company's ethics program, specifically training, examples, reinforcement, or support. Hopefully such efforts will increase the chance employees will remember the code or realize they or others are violating the code.

### *Reasons for code compliance*

*Personal values:* Similar to the existence of greed, the presence of appropriate personal values is difficult for companies to exert any influence over. What companies can do is to utilize the selection process (e.g., background checks) in an effort to avoid hiring potentially unethical employees.

*Fear of discipline:* Along the same lines as decreasing opportunity, the enforcement of the code and the communication of such enforcement would serve to increase the level of fear of discipline for those employees who are motivated by such concerns.

*Loyalty to company:* A company with loyal employees, as opposed to dissatisfied employees, may find greater code compliance. Greater loyalty or job satisfaction can be potentially enhanced in a number of ways, such as providing additional compensation, benefits, rights, privileges, promotion opportunities, additional responsibilities, or by providing skills training or access to career development courses. If employees can see that their own personal success is contingent on the success of the company, and that compliance with the code helps to ensure as opposed to hinder company success, greater support for the code may be generated as a result.

### *Code metaphors*

For those in the business community, an understanding of the eight metaphors may prove to be beneficial. The current perception among academic scholars and the business community appears to be that the only way that codes can potentially influence behaviour is by an employee reading, understanding, and then complying with the code (i.e., the rule-book metaphor). The emergence of the eight metaphors demonstrates that the process by which a code influences behaviour is much more diverse, convoluted, and indirect. An appreciation of the potential impact of codes on behaviour may generate greater interest and support for the use of codes on the

part of senior management. As a manager or employee involved in code training, an explanation of the various code metaphors can provide a clearer picture of how codes work, and their potential for influencing behaviour. This may in turn indirectly improve the ultimate effectiveness of the codes through enhanced awareness, additional support, and greater use. For example, senior management may be under the impression that their company's code acts in one manner (e.g., as a sign-post or fire alarm), when in fact employees perceive their code differently (e.g., as a rule-book or club). Code training and reinforcement may have to be adjusted if a different perception or use of the code is desired.

#### *Future research directions*

The study suggests that corporate codes of ethics must be studied more fully. Although the study begins to answer the question whether codes make a difference in influencing behaviour and how they make a difference, greater clarification is now required. The following is a list of possible research questions that might be addressed using the study as a starting point:

- (1) Over which ethical issues do codes have the greatest potential to influence behaviour?
- (2) What is the relative importance of each of the reasons why codes are complied or not complied with?
- (3) Can the reasons for code compliance and non-compliance be empirically validated?
- (4) Does the presence of certain reasons negatively correlate with other reasons? (e.g., greed vs. personal values, dissatisfaction vs. job loyalty, and opportunity vs. fear of discipline).
- (5) Do the metaphors best capture the essence of each mode of code influence?
- (6) How does each of the reasons for code compliance or violation relate to each of the eight metaphors of code influence?
- (7) Can the metaphors which explain how codes influence behaviour be supported by additional quantitative empirical research?
- (8) Are there any modes of influence which the research has not captured?
- (9) Does the type of code (e.g., compliance-based versus value-based) or other code effectiveness factors (e.g., training, senior management support, reinforcement, enforcement) influence the type of metaphors which are more applicable or prevalent in a given company?

#### **Conclusion**

The study, although taking research on the relationship between codes of ethics and behaviour further, does possess certain limitations. The use of interviews does entail certain restrictions such as the limited capacity of respondents for introspection and recall as well as the quality of the interviewer potentially affecting the quality of the data. The sample could have been more diversified, in terms of meeting with CEOs, members of the board of directors, or other stakeholder groups (e.g., independent contractors, suppliers, customers, competitors, community leaders, or government regulators). Smaller companies, non-Canadian companies, as well as companies which do not have a code of ethics or only provide a code document, could have been included. Although the study attempted to identify actual examples of employee behaviour which was influenced by the existence of a code, actual behaviour was not observed nor measured. Instead, respondents only provided examples of self-reported behaviour, or their own personal perceptions of the changed behaviour of others. Finally, the study did not possess a longitudinal component. For example, the decision making of employees could be looked at prior to the introduction of a code, during, and afterwards.

The emergence of corporate codes of ethics represents one of many ways to address corporate misconduct. Unfortunately, the phenomenon of corporate codes, despite growing tremendously in popularity over recent years, still faces resistance, skepticism, and cynicism from many within the corporate and academic communities. Although further research is necessary, the study found that: (1) actual examples of modified

behaviour due merely to the existence of a code of ethics exist; (2) a number of reasons exist as to why codes are complied or not complied with; and (3) codes can potentially influence behaviour in a variety of fashions as identified by the various metaphors. The findings of the study suggest that negative views regarding the use of codes may be unfounded or unwarranted.

The study represents an attempt to add greater clarification and insight into the relationship between codes of ethics and behaviour. What the study finds is that based on the data provided by the respondents, codes of ethics can be an important first step towards the objective of encouraging legal and ethical behaviour. Codes, however, are by no means the only necessary step.

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