Codes of Ethics in Large Private Sector Australian Businesses

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SUMMARY

This thesis deals with codes of ethics in the top 500 companies operating in the private sector in Australia. We seek to answer two questions. First, can businesses adopt codes of ethics in a meaningful way, or are business ethics a contradiction in terms for profit seeking organisations in competitive markets? Second, to what extent do Australia’s top 500 private sector firms show commitment to codes of ethics? A number of ancillary questions are explored to form a picture of the current Australian situation and to compare it to the rest of the world, especially the US and Canada.

Chapter 1 discusses these questions and the origins of the author’s interest in business ethics. This chapter develops a focus upon codes of ethics and their role in assisting to establish and maintain an ethical culture. The chapter looks at previous research on codes of ethics and demonstrates a lack of understanding in Australia on the subject and the need for research into it. Also included in Chapter 1 is the plan for the thesis.

Chapters 2 to 4 review the literature upon which the thesis is based. In Chapter 2, the meaning of the terms ethics and business ethics are considered. Deontological and teleological approaches are distinguished and a (largely) teleological model of business ethics is developed. This chapter also asks whether business ethics are possible. The contention that ethics may be good for a business’s profit is explored in-depth and the conclusion is reached that ethics should be pursued for its inherent worth regardless of the economic benefit that can be attributed to it.

A number of models of ethical decision making are discussed in Chapter 3 starting with Kohlberg and Kramer (1969). This discussion leads to the conclusion that organisations must create an ethical culture for staff if they
Summary

require them to embrace ethical practices. If this is a correct conclusion, then the role of senior managers becomes critical in the process.

Chapter 4 looks further at the role of senior managers, organisational culture and ethical/unethical behaviour in organisations. The conclusion is that senior managers do play an integral part in shaping the culture of an organisation. Their actions, either overtly or covertly, impact upon their staff and highlight behaviour that the organisation is or is not willing to tolerate. Sims (1991) proposed ten ways to foster an ethical culture and these ideas are set out and further explored through the work of other writers on management ethics. Finally, the link between ethics and strategic planning is examined.

In Chapter 5 the methods used for empirical data gathering are described and justified. A number of factors that can lead us to consider a company’s ‘commitment’ to ethics are outlined. A survey of Australian companies was the primary means of data collection. Each question in the survey instrument is listed and explained. Also the survey response rate is reported, as are major demographic characteristics of respondents.

Chapter 6 provides the research findings from the survey of the top 500 companies operating in the private sector in Australia. The research examines:

i) the current Australian usage and implementation of codes of ethics;

ii) the measures put in place in organisations in order to support a code;

From this analysis conclusions are drawn about the ‘commitment’ of companies operating in Australia to codes of ethics. Australian companies are becoming aware of the potential of code usage. Companies operating in Australia that have codes appear to be good at implementing codes and examining staff performance in relation to codes. However, they lack the procedures that
incorporate education and training and the implementation of the support mechanisms necessary to enhance employee understanding of the code.

In Chapter 7, Australian codes are compared to American and Canadian codes for similarity and disparity. The assessment found that in all three countries codes are primarily concerned with company continuance. Australian codes do tend to be more socially oriented than in the other two countries and also less legalistic.

Chapter 8 looks at 4 companies from the first survey that were asked for more in-depth information in a quest to determine current best practice in Australia. These organisations were chosen because they appeared, from the first survey instrument, to have put in place mechanisms to assist employees to better understand the code. The implication is that companies must make a conscious, positive effort to ensure that employees are considered in the process of ethical development. They should have input into the process, rather than just being directed to follow another management initiative.

The final chapter summarises the research findings and looks at answers to the two major questions and the seven subordinate empirical questions posed at the start of the thesis. The conclusion reached is that companies operating in Australia appear to be moving towards establishing codes of ethics. Those who already have codes display a real commitment to them. The movement appears to be gathering momentum as more organisations see the value of incorporating ethical business practices into the every day workings of their individual companies. Generally, most Australian companies lag behind the rest of the world, but the pace-setting companies are defining their own best practice and achieving positive outcomes for themselves, their employees and other stakeholders.
ACKNOWLEDGMENTS

I would like to extend my thanks to a number of individuals who have made this research and the attempt at this degree possible for me.

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To my wife, Alice, and our two children, John (6) and Megan (3), my deepest, heartfelt thanks. Without your patience, love and unswerving support I would never have found the time or the capacity to complete this project.

Finally, I dedicate this work to my father who passed away on February 17, 1997. Dad, you always inspired me to be all that I could be and for that I shall be eternally grateful.
DEAKIN UNIVERSITY

SUMMARY OF THESIS SUBMITTED FOR THE DEGREE OF:

DOCTOR OF PHILOSOPHY (MANAGEMENT)

This thesis is focussed on codes of ethics in the top 500 companies operating in the private sector in Australia.

The early chapters of the thesis explore the following areas:

Chapter 2: ethics, business ethics, business ethics in the USA, UK and Australia, ethics and profit.

Chapter 3: a number of models of ethical decision making starting with Kohlberg’s work and leads to the conclusion that organisations must create an ethical culture for staff if they want them to embrace ethical practices.

Chapter 4: the role of senior managers, organisational culture, ethical / unethical behaviour in organisations, Sims (1991) ten ways to foster an ethical culture and finally examines the link between ethics and strategic planning.

Chapter 5: an examination of codes of ethics and their role in assisting to establish and maintain an ethical culture.

Chapters 2 to 5 are the literature review upon which the research component of the thesis is based.

Chapter 6 is the chapter in which the dimensions and the direction of the research are justified from a theoretical perspective. Each question in the Survey document is grounded in theory.

Chapter 7 states the research findings of the survey of the top 500 companies operating in the private sector in Australia. The research establishes the current Australian usage and implementation of codes of ethics; the measures put in place in organisations in order to support a code; examines a cross cultural comparison between the content of codes of ethics in Australia, USA and Canada; and looks at the stages of moral development of companies operating in Australia.

Chapter 8 looks at 5 companies from the first survey that were asked for more in-depth information in a quest to determine current best practice in Australia.

Chapter 9 is the final chapter that focuses upon a conclusion to the research and points towards future directions of research in this area in Australia.
Signed: .................................................................

Name: .................................................................

Date: .................................................................
Chapter 1

Introduction: The Origins and Plan of this Study

1.1 Introduction

This thesis seeks to answer two questions. First, can businesses adopt codes of ethics in a meaningful way, or are business ethics a contradiction in terms for profit seeking organisations in competitive markets? Second, to what extent do Australia’s top 500 private sector firms show commitment to codes of ethics? The first of these questions is theoretical asking can there be a meaningful code of business ethics. The second question is empirical exploring whether the behaviour of Australian corporations is influenced by commitment to codes of business ethics.

This focus upon ‘codes of ethics’ derives from the more general interest amongst Australians in business ethics. Unlike the situation ten years ago, Australian businesses now appear to acknowledge the importance of ethical behaviour, act on this awareness and educate and train staff to deepen their understanding of ethical issues and to strengthen the likelihood of ethical acts. From where does this interest in business ethics stem?

Business ethics has emerged only recently as a topic of interest amongst Australian business people and business academics. Not until the late 1980s did Australian businesses and researchers begin to match American interest in the field. The 1987 stock market crash played a large part in the ‘discovery’ of the importance of business ethics in Australia. The collapse of some financial institutions and the prosecution, imprisonment and public vilification of several powerful business figures caused governments, businesses and the public to examine openly the moral precepts upon which Australian business relationships were predicated.

This examination of business ethics took several forms. Predictably, the close relationship between business ethics and the law meant that ethical questions tended to be directed to an examination of the adequacy of company law, tax law, audit procedures and the like. However, coinciding with the 1987 crash, Australian businesses and society were moving towards de-regulation and self-
regulation in the nexus between government, business and the law. As a result, the rising interest in business ethics developed into a ‘self-regulatory’ form. Businesses adopted codes of ethics, in effect declaring themselves to be capable of meeting adequate ethical standards without legal direction. This thesis is concerned with the growth of codes of business ethics - the self-regulatory stream in the morally renewed business world of the 1990s.

Self-regulation, through codes of ethics, may seem inadequate as a defence against the kinds of business corruption or irregularity that surfaced in Australia after 1987. Before the reader settles for this conclusion, mention must be made of a second factor that has directed Australian business towards an interest in codes of ethics. This is internationalisation or globalisation. During the late 1980s the author of this thesis worked in the Asia-Pacific Region for a large multinational oil company. This career path, of working offshore, is increasingly common for Australian managers. Two phenomena became clear in my work offshore. First, business in the Asia-Pacific Region is not necessarily conducted according to Australian ethical and legal standards and second, managers are often left unprepared to adjust to different moral and legal milieux. In particular, no code of ethics existed in my company. This personal experience suggests that much of the post-1990 development of codes of ethics might be attributed to the need for international business to fill a legal/ethical void. This legal/ethical void exists because of the huge differences between Asia-Pacific countries in both law and custom. Lacking the common ground for an external regulatory base, self-regulation becomes more important to guide ‘moral’ acts.

We may speculate then that Australian interest in business ethics is the result of two factors - a defensive response to the disclosures of ‘unethical’ behaviour by businessmen around the time of the 1987 stock market collapse, and to fill a cross-cultural/legal-ethical gap exposed by the internationalisation of business. A third force is also likely to have been at work. To a degree, Australian interest in business ethics simulated a trend that began in the United States of America, spread to other countries such as the United Kingdom and Canada, and was often transmitted by multi-national corporations. The next section of this chapter, therefore, discusses the heritage of ideas on business ethics outside Australia, and their recent adoption in Australia.

1.2 The Evolution of Ideas upon Business Ethics
This section of the chapter focuses upon the history of ideas upon business ethics. Business Ethics is often perceived as a new phenomenon that has arisen in the second half of the twentieth century. Thus Baumhart’s (1961) seminal work, ‘How Ethical are Businessmen’, was seen as the first attempt to investigate in detail the perceptions of business executives about ethics in American business. David Vogel (1991a:101) however, contends that ethics in business has been a topic for debate since man first became involved in business enterprises. He contends that,

*In fact, public concern with the ethics of business is neither novel or unusual. On the contrary, the public has been preoccupied with the ethics of economic activity since the market economy began to emerge 750 years ago.*

Vogel’s article goes on to suggest that the desire to accumulate wealth was sanctified by the Protestant belief that if one worked hard then the temptation of the devil would be avoided. A complementary idea was that if one did work hard then the subsequent reward for one’s labour would be accepted in the eyes of God. Hence the Reformation gave, for the first time, credibility to the pursuit of wealth and capital. Capitalism gained social acceptability because it was sanctioned by the Protestant view of God.

Vogel’s (1991a:116) conclusion sums up his belief that,

*We are too ready to assume that the ethical dilemma that business now faces are somehow unique or unprecedented ... The contemporary revival of interest in business ethics can thus be understood as part of an ongoing moral dialogue with deep secular and religious roots ... While many of the underlying issues have not changed, the public’s expectations of the ethics of business have steadily increased: each generation expects more of the men and women who manage capitalist enterprises.*

Business has always faced ethical questions, but how might business ethics have evolved over time? Brooks (1989) offers one view of the evolving nature of business ethics. He examined the corporate social contract to develop an understanding of the evolution of ethical responsibility. He placed the corporate social contract in the context of the interrelationship between corporations and society. His belief was that corporations did not have the right to act in any way that they saw fit. The organisation is allowed by the community to act in a manner that pursues the objectives of the organisation. Nevertheless, the organisation must recognise that it is bound by its legal
responsibility to the society in which it exists. He defined this relationship as 
the ‘corporate social contract’.

Brooks examined two views of the evolutionary process of ethics in business. 
They are the Four Phase (Industrial Organization) Approach proposed by Brooks himself and the Three Phase (Management Motivation) Approach proposed in 1974 by Hay and Gray.

Brooks outlines four different phases within the evolution of business. The first phase was identified with the sole proprietor who was motivated by self-interest. The capitalist system then evolved into phase two with entitled shareholders who invested in a company and kept a close watch on its day to day activities. In phase three shareholder scrutiny became more distant as multi-plant operations became more widespread and the benefits of business were thought to accrue to the country and the society as a whole, rather than just to the shareholders. In phase four, which he believes is the present stage of development, has arisen the phenomenon of stakeholders. Inherent in this model of development is the view that businesses’ ethical obligations have extended across society to multiple stakeholders. Many of these ethical commitments are not expressed in law. Therefore, Brooks concludes by saying (1989:118),

*No longer can a corporation take refuge behind the argument that an action is within the law; it must also be seen to be morally acceptable ... As a result, corporations should now be aware that their actions face a dual test of legality and moral acceptability.*

Similarly the Management Motivation Approach outlines three phases of evolution towards wider corporate social responsibility. The initial phase was the ‘profit maximisation’ phase. This phase allegedly was concluded around the 1920s when the ‘trusteeship’ phase came into being. The trusteeship phase came about as an extension of phase one. Profit maximisation was still an objective but it needed to be maintained in an equitable balance between the various publics upon which the company’s activities would impact. The final phase concerned the ‘quality of life’, when the pursuit of business goals became unacceptable if the outcome eroded physical or social environments.

Vogel (1991a), Brooks (1989), Hay and Gray (1974) note that an evolutionary process is occurring with respect to business ethics and society. They all believe
that the process was in existence well before the latter half of the twentieth
century and has developed from historical roots embedded within western
capitalist traditions. Vogel (1991a:116) summarises the evolution of business
ethics when he says,

Continuous, careful public scrutiny of the moral character of business
decisions may not be novel, but it has played an essential part in the
historical evolution of capitalism.

From the standpoint of these writers, business ethics is not new in the 1990s -
merely evolving. It follows that the focus of this thesis on modern codes of
ethics needs to be situated in a deeper understanding of the evolution of ideas
on business ethics.

1.2.1 Business Ethics in The United States of America

Any history of ideas on business ethics has to recognise the special importance
of the United States of America - the country of origin for most of the research
and writing on this subject. The United States has been at the forefront of the
movement for business ethics since Baumhart’s 1961 study. For that country De
George (1987) has distinguished five stages of development in business ethics.
The first stage is pre-1960 and entitled the ‘ethics in business’ stage. According
to De George, the main relevant interest groups within the United States were
religious groups. These religious groups provided a foundation of explicit
concern with business ethics.

Stage two began in the 1960s with the rise of interest in social issues in business.
It coincided with a revolt against authority emanating from the repercussions of
the Viet Nam War. According to De George (1987), the major academic point of
focus on ethics at this time was upon legal rather than moral issues.

Stage three began in the 1970s which saw the emergence of the distinct field of
business ethics. Added to the interest already expressed by theologians and
religious leaders and management educators was growing interest in the area
by philosophers. These philosophers helped to synthesise the philosophical and
ethical theories that underpin current business ethics theory. Arising out of this
increased interest in the topic came new lines of inquiry. The moral status of the
corporation was a central issue, as was the need for business to consider the
views of those outside management who were affected by the activities of business.

Stage four occurred in the first half of the 1980s which De George terms as ‘the period of initial consolidation’. By 1985 business ethics was an established academic field. Academic writings upon the subject proliferated and business began to embrace the concepts in earnest.

De George identifies the start of Stage five in 1985. He sees it as ‘defining the field’. The study of ethics in business had developed into an introspective examination of the free enterprise system and the ways that corporations acted within the market place. De George (1987) contends that business ethics has become a discernible body of knowledge in its own right. De George (1987) suggests that to progress from this fifth stage research needs to be conducted in a number of areas. These areas include research into ethics and corporate culture; the correlation between ethical behaviour and profit; the use of training and in house ethics committees and the investigation of ethics on an international level.

There exists substantial interest in business ethics in the United States. Companies have implemented a wide array of measures in an attempt to foster ethical business practices. Thus, Townley (1992) lists two measures that have occurred. First, some companies have appointed an ombudsman (for example, General Electric and Pitney Bowes). Second, a number of companies have hotlines to report unethical behaviour. Thus, Pacific Bell is now handling 1200 calls a year on a hotline that it began in 1989.

Labich (1992) considered more developments that elaborate on the list proposed by Townley. These include the following:

- 200 major US corporations have recently appointed ethics officers ... to serve as an ombudsman and encourage whistleblowing.
- over 40% of respondents to a Fortune 1000 company survey are holding ethics workshops and seminars and about one-third have set up an ethics committee.
- Citicorp has developed an ethics board game.
• General Electric employees can tap into an especially designed interactive software package on their personal computers to get answers to ethical questions.
• Texas Instruments employees are exposed to a weekly column on ethics via electronic mail.
• through anonymous questionnaires managers at Northrop are rated on their ethical behaviour by peers and subordinates.

Many corporations in the United States have developed what appears to be an ethical orientation to business. This orientation goes beyond invoking platitudes about what is right and wrong. It extends to practical ways to assist staff to face and cope with the ethical dilemmas of every day business decisions. While the evidence is fragmentary and often anecdotal, it appears true that there is widespread and growing interest in ‘applied business ethics’ in the USA.

1.2.2 Business Ethics in The United Kingdom

Compared with the USA, progress in the UK seems to have been slow. Nevertheless, there are significant developments to report. Schlegelmilch and Houston (1990:38) in an article, entitled ‘Corporate Codes of Ethics’, suggest that in Britain there is heightened interest in the subject of business ethics. They cite that during 1987 there was the development of a masters programme at the London Business School; the inauguration of the Institute of Business Ethics in London; and the establishment of the Business Ethics Research Centre at King’s College, University of London. They view these moves as positive evidence of increased interest. However, they do emphasise that there is a dearth of UK literature on the general area of business ethics.

Schlegelmilch and Houston (1990) also mention the establishment of ethical investment trusts. The investments are based on doing business with ethical companies. Business is not done with a company if they have business interests in ‘alcohol, tobacco, armaments, gambling and South Africa’ (prior to the abolition of apartheid).

These developments in the latter half of the 1980s highlight that in British business, ethics has not been on the management agenda for as long as has been
the case in the United States of America. As Schlegelmilch and Houston (1990:38) argue,

... the UK is only beginning to get to grips with the subject. There is a dearth of UK literature on business ethics and corporate codes of ethics in particular.

Maclagan (1992:321-322) in his article, entitled ‘Management Development and Business Ethics: A View From the U.K.’, says,

Until fairly recently it appeared that British management development practice was, in general, advancing along a route which bypassed the parallel rise in interest in business ethics. Now an increasing interest in values in management development has surfaced in some quarters in the U.K.

Maclagan (1992) suggests that the global rise in business ethics was not recognised as applicable by managers to British industry. It may have appeared to have lacked relevance to them. Mahoney (1990:549) in the same vein as Maclagan contends that British managers are unwilling to confront ethical issues directly,

There does seem to be a certain national reluctance on the part of business to discuss its activities in overtly ethical terms, but laudable as such discreet reticence may be, it is at the expense of analysis and systematic study of the ethical dimensions of business.

Donaldson and Davis (1990) in the British context refer to the issues of famous organisational and individual transgressions as ‘causes célèbres’. These ‘causes célèbres’ are those which have come to prominence because of the lack of business ethics. They believe that there have been a number of major events within the areas of financial services and industrial relations which have spawned an accelerated growth in areas of legislation, deregulation and re-regulation. Codes of practice have also become more of a focus and the numbers of them have increased. They contend that the increase in activity in these areas is as a direct result of a ‘search for new principles’ and a desire to rediscover principles that applied in the past.

Britain in the latter half of the 1980s became aware of business ethics as a topic of interest and concern and one which should be studied. In comparison to the
United States of America, one could argue that the British interest is underdeveloped.

1.2.3 Business Ethics in Australia

Just as British developments have followed the USA, so too it appears Australia has lagged behind the USA. However, interest in business ethics is clearly apparent. One Australian organisation taking a large interest in ethics is Westpac Bank. In 1989 it produced its own code of conduct for its staff. The bank also did something novel by producing a code of practice for its customers (Westpac Communication Media Unit, 1992).

In March of 1993, The Australian Institute of Management, South Australian Branch, sent out a questionnaire to 500 of Adelaide’s senior business people asking them for responses to questions based upon their perceptions of ethics in business. Summarising the findings, Mr Grant Rowlands, the chief executive of the AIM in South Australia, said,

* Today, you would be hard pressed to find a manager who said ethics did not have a role to play in business. *

(Australian Institute of Management (S.A.), 1993:1)

The survey found that,

* 65 per cent of SA managers said there was an increased awareness of ethics within the business community and all totally supported the concept of senior management having a role to play in setting the corporate ethical environment. *

(Australian Institute of Management (S.A.), 1993:2)

In 1989, The St James Ethics Centre was set up in Sydney. This emulated what had occurred in the United Kingdom in 1987, when the Institute of Business Ethics was established. According to the then Chairman of The St James Ethics Centre, The Reverend Peter Hughes, the reason for the Centre’s establishment was to provide resources and support for individuals within the business world and to facilitate the search for those values which underpin our culture. In turn, this investigation, it was hoped, ‘might restore ethical cohesion and consistency to the business and professional community’ (The St James Ethics Centre, 1993a:4).
The Centre offers a number of consulting services which are designed to focus upon ethical issues in business and to help to resolve some of the inherent ethical dilemmas faced within the workplace. There is a particular focus upon the value systems of organisations as well as individuals. Services include confidential individual discussions, examination of organisational values and assistance with the development of a code of ethics (The St James Ethics Centre, 1993a:5).

The Centre is constantly growing and has managed to obtain the support of some of Australia’s largest organisations including the AMP Society, Orica, The Commonwealth Bank of Australia and The State Bank of New South Wales. It has established a forum in Australia for the discussion of business ethics.

Grant Smith (1993:14), managing director of the Global Funds Management Group, said in a presentation to the Australian Superannuation Industry Forum in 1993,

> The education system in Australia is beginning to run courses and programs in ethics and ethical behaviour. Our legal system is spawning a rash of laws designed to set a minimum level of permissible behaviour. Concern over ethical behaviour or the lack of it in business, has spread to many segments of our society. Corporate Australia is in the midst of an ethical crisis.

Smith’s (1993) point about education in Australia now starting to take an interest in business ethics is worthy of comment. Not only the education system, but professional bodies also are becoming involved in business ethics education.

The Australian Society of Certified Practising Accountants has had written for it, by Paul Northcott (1993a, 1994), 2 sets of publications that guide accountants on business ethics. The publications are entitled, ‘Ethics and the Certified Practising Accountant: Case Studies’ and ‘Public Practice: Ethics Case Studies’. Both publications are designed, as the foreword says, for use as ‘teaching materials by academic staff and business students at the tertiary level.’ The publications contain case studies on a range of ethical issues that accounting professionals may face in their daily work.
Another Australian development of note concerns banking. Within the banking industry a voluntary code of practice has been constructed to ensure that individual customers using banking facilities for either private or domestic purposes are made clearly aware of the obligations of all parties who may be involved with the transaction. The conditions inherent in any transaction must be expressed succinctly and in plain English (Kouts, 1994a).

Also of interest, within the franchising industry a number of measures have been implemented to improve the practices of both individuals and the industry as a whole. One of these measures is a self-regulatory code of practice for franchising. The former Commonwealth Minister for Small Business, Senator Chris Schact, said, at the 1993 Franchising Awards presentation,

“If self-regulation is to work, it is absolutely vital that it be supported by the majority of players in the franchising sector and franchisors are clearly the most important element here,” he said.

He added that unless the self-regulatory code were adopted by the industry, other steps would be taken to control the activities of less scrupulous operators.

“The franchising industry has been given the opportunity to put its house in order. As such, it is surely a preferable option to the relatively inflexible, expensive and confrontationist approach represented by legislation.”

(Kouts, 1994b:20)

The spectre of Government intervention is also addressed by the AMP Group in their Group Highlights 1993 publication. The publication, in the form of a brochure, encompassing the chairman’s and the managing director’s report, devotes one section to regulation. The AMP Group’s (1994) perception of events was that 1993 had seen a review of regulations within the life insurance and superannuation industries occurring as a direct result of pressures exerted by political, consumer and regulatory bodies.

Why has interest in business ethics grown in Australia? This issue was discussed briefly in the introduction to this chapter. If one accepts the logic of Vogel (1991a) then one could contend that today’s interest in business ethics is the culmination of 750 years of intellectual ferment. However, there appears to be an interest in the USA, UK, and Australia in business ethics which one could suggest is unparalleled, or at the very least, extremely heightened at this point in time.
Writing about the USA, Brooks (1989:119) lists six explanations for this heightened interest which may also be applicable to Australia.

First, a crisis of confidence about corporate activity.
Second, there is the issue of increasing emphasis on quality of life - our health, our leisure time, our working conditions, our fresh air and water, are all in jeopardy from acid rain, radiation, and other forms of pollution.
Third, there is now the growing expectation that, if caught, a corporation and its executives will be penalized heavily rather than let off lightly.
A fourth factor contributing to the ethical sensitization of executives, professionals and society in general is the growing power of special interest groups.
The fifth factor is the level of publicity which has been generated by the previous four.
The final factor is a change in the objectives which control business. I believe that there is a trend to de-emphasize the maximization of short-term profit as the only goal.

Smith (1993) writing about the Australian situation supports Brooks’ first point. His belief is that since 1987 the Australian community has been deluged with revelations about the apparent malpractices of many individuals who were the high-fliers of the 1980s. Small (1993:293) agrees with Smith saying,

Recent events in Australia, ..., have revealed what can only be described as an absence of ethical standards in a number of well known corporations and firms, and the number of merchant banks and investment firms which find themselves in difficulty is now a matter of great concern to many thoughtful business persons.

Milton-Smith (1995:683) confirms those views of Smith (1993) and Small (1993) when he says,

High profile entrepreneurs became folk heroes and, one suspects, the most influential business role models for the community. When the bubble finally burst and the crash came, it soon became clear how corrupt and leaderless the Australian system had become.

Milton-Smith (1995:683) goes on to say that in Australia,

In the wake of corporate collapses involving well-known companies such as Bond Corporation, Qintex, Rothwells, L.J. Hooker, Tricontinental, Elders-IXL, Adelaide Steamship, Estate Mortgage and Spedley Securities, many questions have been raised about the integrity of business and government leaders.
Such corporate activities have achieved notoriety within Australia. This supports Brooks’ fifth contention that publicity has been generated at such a level that society has become aware of these excesses which have affected the ‘person in the street’. In particular society has become aware that financial default has had an impact upon foreign debt ratios and therefore upon the entire community. One may argue that the demise of high profile entrepreneurs and financial institutions in the late 1980s and the investigation and publicising of their behaviour, which has continued into the 1990s in Australia, may be the reason why in this country there is an heightened interest in business ethics.

In 1991, the Business Council of Australia (1991) published, ‘Corporate Practices and Conduct’, which was an attempt to establish some guidelines and principles of corporate conduct and practice. It gave the reason for producing the report as follows,

It arose from a recognition among leading business organisations that the excesses of the 1980s had damaged the reputation of Australian business and there was a need to restore it.

The Business Council report highlights an awakening in corporate Australia about the need for improved business ethics. The Business Council of Australia is considered to be a peak interest group for business in this country. For it to publish such a document, in itself a criticism of its own membership, is significant in itself. The list of contributing organisations assisting in the production of the paper includes many of the leading businesses in the country. (Appendix A) It confirms that the reputation of Australian business was damaged during the 1980s and that the Australian business community needs to address the problem of ethics in business.

To sum up, business ethics - as a distinct field of study - has been evolving for a long time. Only recently has it emerged as a distinct and high profile area of corporate concern and academic interest. Evolving first in the USA, ideas have spread through the English speaking world impacting on Australia in a visible way only in the late 1980s and 1990s.

Australian interest in business ethics takes many forms - teaching programmes in universities, debates about government regulation and much else. Especially prominent have been formal ‘codes of ethics’. It is to these that we now turn.
1.3 The History of Codes of Ethics

Baumhart’s (1961) research suggested the need for better guidelines for executives to assist them in facing ethical dilemmas. Baumhart suggested the establishment of codes of ethics. To this end he quizzed executives about their views on codes of ethics. He found that only ten per cent of executives opposed the idea whilst fifty per cent strongly favoured the establishment of a code of ethics for their industry. At that time in US business history, (the early 1960s) some industries had codes of ethics. It should be noted that these codes were usually industry specific, not company specific as they tend to be today.

Also important at the time were ‘credos’. Benson (1989) cites research by Thomson, in 1958, which analysed for the American Management Association, what Thomson termed ‘credos’ of 103 corporations. Seventy-five per cent of the credos reviewed by Thomson had been written since 1953, suggesting that they were part of a movement that existed since that time to formalise ethics in business. Benson (1989) contends that these credos were the forerunners of the current codes of ethics. Whilst the specificity of action within these credos was not as clear as is often the case today in codes of ethics, Benson believes that there is sufficient similarity between them to associate them with the codes of today. Benson surmises that the rise of codes of ethics usually coincided with a rise in public knowledge of infractions by American companies of ethical and legal standards. Frequently, these infractions involved foreign and domestic kickbacks in order to obtain business.

Cressey and Moore (1983) concentrated upon events in the mid-1970s as the cause for the adoption of codes by many US companies. By November 1976, over 200 company codes of ethics had been placed in the Conference Board’s John H. Watson Library in New York. Cressey and Moore depict this as an immediate consequence of the recent publication of widespread corruption allegations. Shortly after, the movement had peaked. By 1979 there were 249 codes in the Watson collection suggesting that growth had slowed down. Cressey and Moore therefore believed that this movement was temporary. They contend that it passed nearly as quickly as it had been born.

During the late 1980s one could argue that the movement was revived. It was suggested above that a precipitating factor was the revelation of unethical and
illegal practices of entrepreneurs in the 1980s. The actions of these individuals affected the community in a more direct way, than the corruption issues of the 1970s because of the massive monetary losses sustained by financial institutions and private investors due to unethical and illegal practices.

Whatever the reason, codes of ethics enjoyed renewed popularity. According to the Center for Business Ethics (1986) a survey of Fortune 1000 industrial and service companies, found that of the twenty-eight per cent of respondents seventy-five per cent had corporate codes of ethics. This represented an increase in the vicinity of five to ten per cent over the incidence reported in a similar study done in 1979 by the Ethics Resource Center, and a forty per cent increase against the findings of the Conference Board study of the early 1960s. Similarly in Britain, Schlegelmilch and Houston (1990) concluded from their research of the top 200 companies that 42 per cent of the companies surveyed had introduced a code of ethics.

To summarise, there have been codes of ethics in the USA since the early 1960s. Their rise and popularity appears to be in inverse proportion to the community’s perception of the ethical behaviour of business. As the community’s perception of unethical practices by business increases so then does business respond by introducing such codes. This thesis will explore to what extent Australia has followed the US example.

1.4 Defining ‘Codes of Ethics’

The previous section reviewed some evidence on the historical development of codes of ethics, but what exactly is a code of ethics? It is important to be clear on this definitional point.

It is difficult to find a universally acceptable definition of codes of ethics because of the complexity of the phenomenon and the differing perceptions of codes. Nevertheless there are definitions. McDonald and Zepp (1989:61) quote Hosmer’s definition of codes of ethics:

> Ethical codes are statements of the norms and beliefs of an organization ... they are the ways that the senior people in the organization want others to think. This is not censorship. Instead, the intent is to encourage ways of thinking and patterns of attitudes that will lead towards the wanted behavior.
This definition has several significant elements which we can take to be fundamental to any definition of a code of ethics. First, the ethical code is a ‘statement’. We may presume that in large businesses that this must be a formal written statement, although a verbal one may suffice in small business. Second, the code deals with ‘norms and beliefs’ of the organisation - presumably concerning what is good conduct. Third, the intent is to ‘encourage ways of thinking and patterns of attitude’ thus targeting the beliefs of individuals. Fourth, this will lead towards ‘wanted behaviour’ or actions. These four elements seem common to all definitions of codes of ethics. More debatable in Hosmer’s definition is the contention that senior managers are the ones who have the ‘wisdom’ to determine code content. Whilst the initiative for a code of ethics should be supported by senior management, it can be argued that the construction of the code of ethics may be better accepted within an organisation if representatives of all of the employees have some input. Then, they may ‘own’ the end product rather than have a code imposed upon them from above. This issue is open to debate, and in latter sections of this thesis this idea is examined in more detail.

A succinct form of words that not only describes a code of ethics, but differentiates it from a code of conduct or practice is one proffered by The St James Ethics Centre (1993b:4) which says that,

A Code of Ethics expresses fundamental principles that provide guidance in cases where no specific rule is in place or where matters are genuinely unclear. A well drafted Code of Conduct will be consistent with the primary Code of Ethics; however, it will provide much more specific guidance. In comparison to a Code of Conduct, a Code of Ethics will tend to:

- be more general,
- contain fewer principles,
- be expressed in terms of “ought” or “should” (and not “must”),
- be directed to all persons affected (and not just to ‘employees’), and
- provide general guidance in those cases where a Code of Conduct is silent, ambiguous or unclear.

Thus, the code of ethics enunciates the philosophical values of an organisation, whilst the code of conduct contains the practical guidelines that enable the ethos of the code to come alive. One could suggest that the code of ethics should provide the guiding principles and the code of conduct should be the prescriptive rules.
One interesting question raised by this distinction centres on the types of ‘codes of ethics’ claimed to exist within organisations. The St James Ethics Centre (1993b) believes that some organisations in Australia develop a document that is a combination of a code of ethics with a code of conduct. Other organisations have a code of ethics without a code of conduct, and vice versa, a code of conduct without a code of ethics.

There is another school of thought that separates types of codes in a different way. Vinten (1990) believes that there are three types of codes of ethics which he defines as regulatory, aspirational and educational. The regulatory code is similar to the Ten Commandments. There are no shades of grey and statements about ethical imperatives are not open to debate. The aspirational code provides a standard to which one can aspire. However, this type of code does not believe that one will attain full compliance, or at best, that one will rarely attain it. The last code is the educational code. It does not prescribe rules or standards. It contends that the individual needs to decide for one’s self and that conscience ought to dictate one’s actions. It encourages discussion but then the individual must decide.

These three types of codes exacerbate the difficulty of distinguishing between codes of ethics and codes of conduct. The US experience tends to suggest that the term ‘codes of ethics’ is a generic term. If one then examines the three types of codes distinguished by Vinten (1990), the first two fall into the area of codes of conduct, according to The St James Ethics Centre (1993b) definition, because they are prescriptive. The educational code approximates more to the definition of a ‘code of ethics’ definition because it is based upon shaping individual values and actions. It is interesting to see that Vinten (1990:11) says of the educational code that,

*The educational code model is recommended as being the least developed, but the one with the most potential and professional mileage. With this model we are much more likely to be able to thrive on chaos, what Tom Peters regards as being so vital to organizational survival.*

For the purpose of this thesis, we accept Hosmer and McDonald and Zepp’s broad definition of codes of ethics (see above). The distinctions raised by The St James Ethics Centre and Vinten are significant and need to be borne in mind when estimating the incidence and evaluating the application of codes of ethics.
1.5 International Research on Codes of Ethics: What are they, how are they developed and how do they work?

There is an extensive body of research on codes of ethics, mainly in the USA, examining their content, the way they are formed and their advantages and disadvantages. In this section the research will be briefly summarised to show the state of contemporary knowledge on codes of ethics. Turning first to what codes are, what does research tell us to be the common characteristics of codes of ethics?

Davis (1988:6) believes that,

All codes of ethics share at least three characteristics:
1. They ask more of employees than would otherwise be expected ...
2. They generally govern activities, or those aspects of an activity, that cannot be supervised closely enough to assure compliance out of such motives as fear or ordinary self-interest, or the close supervision of which would be too expensive or otherwise undesirable.
3. They can serve the long-term interests of a company only if ordinary employees generally go along without being closely supervised.

Murphy (1988:909) adopts a pragmatic approach to codes of ethics. He believes that a number of characteristics should be considered. The characteristics listed are:

1. specificity - because employees need guidance in interpreting their actions.
2. should be public documents - if it is a code of quality it should be open to the scrutiny of not only the internal company publics but the outside ones as well.
3. should be blunt and realistic about violations - by enforcing the code compliance will be greatly enhanced; one should increase the risk of detection rather than the severity of the punishment.
4. should be revised periodically - they should be dynamic documents that are vibrant and reflect the current environment in which the organization exists.

Laczniak and Murphy (1991:269) in their article, ‘Fostering Ethical Marketing Decisions’, reinforced and added to Murphy’s criteria; the major change being the inclusion of the need for the document to be pertinent to the organisation. They say that,
In our examinations of codes of ethics we are continually struck by how similar they are. More thought needs to be given on placing pertinent information in the code. The point is that each organization has certain areas that are particularly likely to encounter ethical abuse, and these concerns are ones on which the code should focus.

One could argue that if the code of ethics of an organisation is to be effective then it must be relevant to the personnel within the organisation who must use it as the guidelines for their decision making. Hence, it should be beneficial to the organisation to tailor the code to its specific work environment and not adopt a code based upon requirements of others either within or outside of their industry. A company’s code of ethics should be just that, a code developed by the company for that company, taking into consideration the company’s individual circumstances and culture. To do otherwise will only weaken the code as a viable and relevant document. It should be owned by the staff and used by them in situations that may confront them. As Murphy (1989:85) says,

> Simply developing a code is not enough. It must be tailored to the firm’s functional areas (e.g., marketing, finance, personnel) or to the major line of business in which the firm operates.

To summarise, research tells us to look for five aspects of the ‘content’ of codes of ethics:

- **Moral content** - what are the prescribed actions and values?
- **Procedural content** - how are codes enforced and violations dealt with?
- **Public ownership** - how is the code publicised and amongst which stakeholders?
- **Adaptation** - is the code a living document updated to meet changing conditions?
- **Company specificity** - is the code tailored to the needs and culture of the organisation?

The last two of these aspects concern the way codes of ethics are developed - and especially the relative role of ‘insiders’ and ‘outsiders’, and the sensitivity of the code to specific company environmental conditions. Research has spawned a lively debate on this issue - how are codes developed and which stakeholders do they serve?

The research literature on the development of codes of ethics raises several issues. To begin, Weber (1981) believes that in the development process the
company must be aware of the business environment within which it exists and of the culture of the organisation for which it is to be developed. A code cannot be developed in isolation. Weber (1981:48) also suggests that the contributors to a code must consider several questions and they include:

\[
\text{What ethical issues were faced most frequently by the corporation in the past year? What steps were taken to respond to these situations? How effective were the steps? What are the most difficult ethical issues facing the company? What major obstacles did the firm encounter in attempting to deal with ethical issues?}
\]

This pragmatic approach focuses the attention of the people developing the code upon the specific issues that the company has faced and hopefully ensures the relevance of the document to the company’s business and cultural environment.

Fraedrich (1992) develops this concept further in his argument that a corporate code of ethics should be developed with both an internal and an external focus. He says that the external code of ethics should consider the relationships of the organisation with such groups as clients, competitors, the community and the society in which it exists. The code should be focussed upon developing the guidelines which the organisation will use when it interacts with these various stakeholders. The internal code should be targeted at the employees of the organisation at all levels. It should be designed to provide guidance for company staff in facing the ethical dilemmas of every day business situations. Fraedrich believes that both codes should be framed in such a manner that the scope is general but the ways that the code ought to be used should be more directive or specific.

The concept of dual codes of ethics for internal and external groups is an interesting approach. The necessity for having the two distinct foci acknowledges a genuine concern to recognise all of the groups or stakeholders with which an organisation will relate. The benefit of constructing a document that recognises both internal and external groups will be a more comprehensive code, because it will recognise the obligations of the organisation to all of those with whom it deals.

In addition, Raiborn and Payne (1990:882) have noted some problems that arise when designing and developing a corporate code. They list six areas of concern:
... codes are often viewed by workers as touting the way things should be as opposed to the way things are.
... when management drafts a code of ethics, many employees feel that there is an implication that someone is doing something wrong.
... another problem relating to the development of a code of ethics is that of determining who has violated it.
... the code of ethics must make provisions for investigating a situation's facts before damage may be done to a reputation.
... Determining the level of specificity of a code is also a problem.
... The tone of a code must be appropriate. If the tone is negative rather than positive, it can create an attitude problem among employees. Workers view many current codes as accusatory, threatening, demeaning, unrealistic, and excessively legalistic.

The concerns expressed by Raiborn and Payne were based, in most cases, upon procedural problems at the time of the development of a code. These procedural problems may rest upon the possibility that the code had been imposed by management and had not been developed in a consultative and participatory manner as suggested by Stead, Worrell and Stead (1990). They contend that if a code is to achieve the maximum effect then it must be constructed, discussed and distributed in a manner that encourages employee involvement in all stages of the process. Many of Raiborn and Payne’s (1990) concerns would be addressed if the participatory approach of Stead et al., (1990) was followed.

From his research, Benson (1989:317) has also developed a number of developmental guidelines for improving the usefulness of codes. He believes that,

... codes first should be written in a manner designed to give the reasons for each.
... codes need beginnings and perhaps conclusions which try to secure support of the corporation or bureau team in a cooperative effort to keep the organization’s actions strictly ‘above board’.
... codes would be more welcome if they included provisions which recognize the responsibilities of management as well as the responsibilities of employees ... Rights of stockholders and customers and citizens should also be recognized.
... as codes become better means of ethical education, they should be publicized more, especially in areas near company factories or administrative headquarters; the interested public will learn to appreciate the organization more.
... the usefulness of the code depends on boards of directors and top management who want to keep their organizations ethical. If the board
chairman or chief executive officer distributes the code with a note of strong endorsement, the results will be better.

The prescriptions of all of these authors - Weber, Fraedrich, Raiborn and Payne, and Benson - are founded in research which shows the development of codes to be problematic. Rather than uniting stakeholders around a shared set of ethical values, they may codify divisions in existing ethical positions, reflecting only the political dominance of a particular stakeholder. Research by these authors shows the political aspects of code development to be important in shaping their acceptance and use.

Third and finally, the research literature upon codes of ethics deals with the balance of advantages and disadvantages. What is their net utility to the corporation?

McDonald and Zepp (1989:61) believe that the advantages of codes of ethics to the organisations that adopt them are:

1. to clarify management’s thoughts of what constitutes ethical behaviour;
2. to help employees to think about ethical issues before they are faced with the realities of the situation;
3. to provide employees with the opportunity for refusing compliance with an unethical action;
4. to define the limits of what constitutes acceptable or unacceptable behaviour;
5. to provide a mechanism for communicating the managerial philosophy in the realm of ethical behaviour, and
6. to assist in the induction and training of employees.

These ideas are comprehensive and seem to cover the major reasons why companies may implement a code of ethics. Whilst they all seem plausible, other writers argue, to the contrary, that codes of ethics also have disadvantages.

Cressey and Moore (1983) claim that codes of ethics have not in themselves curtailed unethical business practices. Dean (1992) in his article, entitled ‘Making Codes of Ethics ‘Real’’, agrees with the Cressey and Moore view. Dean suggests that even though the code of ethics in itself does establish within the organisation the ‘expectation for behavior’ and can be used as a measure for evaluating the decisions made by employees, the codes do not necessarily guarantee that ethical behaviour will always be improved as a result.
Cressey and Moore (1983:63) also argue that codes of ethics may be couched in terms that may appear to be authoritarian and paternalistic and that employees may gain an impression from the codes that one’s ethical expertise could be a direct result of the management position that one may occupy in the organisation’s hierarchy. Thus, codes may distort the culture or value system of an organisation or reinforce existing defects.

Benson (1989) also believes that codes of ethics are limited in their usefulness. The situation that he considers involves financial management. Ethical principles may be valuable, but if adherence to the code of ethics will force the bankruptcy of an organisation then one must ultimately reconsider the code. This issue was also discussed by Fraedrich (1992). What then is the utility of the code if it conflicts with corporate goals?

A further criticism is that codes of ethics are not ‘brought to life’ by organisations but become a legislative ‘dead letter’. Benefit can only be derived if codes of ethics are brought to life by organisations that genuinely wish to pursue a better ethical culture. As Davis (1988:4) says,

> If a code of ethics is to be more than dead words on expensive paper, a code must be viewed as only the beginning of a long process, a process that should include important changes in a company’s culture.

Townley (1992:37) further explores this evolutionary process and responds to these criticisms.

> But codes ... are only the beginning of a systematic program. They are clearly no panacea for companies. They will not totally halt unethical behavior. Rules have not created a universal cadre of ethical professionals...

> But these statements do put people in organizations on notice that their company has a value system. While codes will clearly not make unethical behavior extinct, they will surely make employees at all levels more responsible and more accountable for their actions. As a consequence, many business leaders believe that codes, properly disseminated and properly understood, will reduce the probability of unethical behavior.

Fraedrich and Ferrell (1992a:249) also respond to the criticisms of codes listed above.
If personnel are not given ethical guidance in decision making, the organization could expect a wide variation in ethical behavior. An organization that leaves ethics to chance, hoping for uniformity in moral philosophies of employees, is decentralizing ethical decision making on a random basis.

Clearly the utility of codes may be low if they are not socially supported, and may only be significant where steps are taken to build them into an organisation’s culture.

To summarise, the review of the research literature raises three issues concerning the content of codes of ethics, their development and their net utility. Research on all three of these issues tends to return to the same themes. A relatively low priority is given to the actual moral content of codes. Rather researchers have focussed on procedural aspects of codes (how are they formed, and reinforced) and the attendant socialisation processes (how are stakeholders informed, trained, or brought towards acceptance of codes).

Three aspects of this literature merit attention. First, it demonstrates that the procedural and socialisation aspects of codes are problematic and thus deserve research. Second, the literature is almost entirely North American and may not be indicative of the Australian situation. Third, much of the literature, though empirically based, is normative. In short, there is a clear gap for Australian researchers to fill with descriptive studies of codes of ethics.

1.6 Research on Codes of Ethics in Australia

Since the early 1980s, a number of studies (in excess of 10) have looked at codes of ethics in the United States of America. When research for this thesis was commenced in early 1992, there were no publications that gave empirical evidence on code usage in Australia. However, in 1992, a study of Australian codes of business ethics was published (Kaye, 1992). The Kaye project of 1989 and 1990 centred upon the 50 largest companies in Australia, listed in Business Review Weekly. Whilst Kaye’s population was the largest 50 companies, he reported on the responses only from the largest 26 companies. From this group of 26 he analysed 13 responses. As had been the norm with such research in the United States of America, Kaye conducted a content analysis of the codes. Kaye’s (1992:860) conclusion was that,
... currently in Australia business codes of ethics have a low profile and are not widely used by business corporations.

In 1994 a second study was published by Farrell and Cobbin (1994a). This was based on a much larger survey than that by Kaye (a population of 537 enterprises). Farrell and Cobbin also gained a good response rate (41.9%) (Farrell and Cobbin, 1994a; 12).

The principal difficulty with Farrell and Cobbin was the inclusion of both public and private sector organisations in the survey. In their original survey, public sector organisations made up 16.75% of the population with a response rate of 68% compared to 38% for private firms. Their analysis of codes was applied to both groups without differentiation.

In contrast, the research for this thesis was targeted directly at the top 500 companies operating in the private sector. Thus, unlike Farrell and Cobbin, only a small number of government enterprises were included. The aim to survey a large sample of Australian private sector businesses distinguishes this thesis from earlier studies. Why is this focus on the private sector so important? One reason is that the major explanations for the growth of codes of ethics apply only to the private sector. Malfeasance and internationalisation have less immediate relevance for the public sector. A second reason is that government enterprises not operating in the private sector already have more extensive and explicit ethical obligations, and ones that are qualitatively different from private sector firms. Consequently, a research focus exclusively on companies operating in the private sector can be held to be justified, or alternatively, data needs to be purged of non-market public sector respondents.

This thesis also enlarges on Farrell and Cobbin’s research in another significant respect. Their study mainly reported data related to ‘mainstreaming’ - the integrated activities that support codes of ethics (training, seminars, ethics committees, ethics procedures and officers and discipline). The issue of mainstreaming, whilst significant, covers only a part of the substantial agenda encompassed by ‘commitment’, which introduces additional issues - code design, communication, effectiveness and objectives. This study seeks to expand on Farrell and Cobbin by using a wider, more comprehensive, conceptual framework.
1.7 The Research Problems: Are ethical codes possible and are firms committed to them?

In previous sections we noted the growing use of codes of ethics by Australian businesses in the late 1980s and 1990s. We also looked at a definition of ‘codes of ethics’ which possessed four key elements concerning: ‘statement’, ‘good conduct’, ‘beliefs’, and ‘actions’ that may be shaped by the code. A code of ethics is a statement of beliefs about good conduct which influences actions.

Two sets of questions arise in relation to the role that codes of ethics may perform. The first set of questions is theoretical. They relate to whether or not codes of business ethics are meaningful. It may be that there is no logical possibility for the meaningful existence of codes of ethics in business. The definition proposed in a previous section (Section 1.4) reveals the problem. A code of ethics must have certain elements. Each of these elements raises questions about the possibility of ethical codes.

First, a code must be a statement of norms and beliefs concerning good conduct. This begs the question whether a company in a competitive market can hold any norms and beliefs about good conduct which lead to actions which differ from ‘profitable conduct’. To the extent that ‘good’ and ‘profitable’ conduct differ, competitive markets demand the latter. Does this make codes of ethics subservient to the profit-making imperative, and do they then become meaningless? Second, a code must state norms and beliefs of the organisation - and so influence the beliefs of individuals who make up the organisation. However, the ethical ideas of individuals may be fundamentally independent of corporate ‘ideas’, thus voiding this part of the concept of business ethics? Third, these beliefs must guide actions for the code to be meaningful, but is this a relevant way of looking at organisations? Do hierarchical organisational business structures have scope for individuals to choose morally independent actions?

What is suggested here is that the notions of individual moral choice and action may be inappropriate in a business world characterised by competition and hierarchy. Were this mismatch to be significant, there may be no possibility of a code of ethics in any meaningful sense.
These theoretical issues are dealt with in Chapters 2, 3 and 4. Chapter Two looks at definitional issues associated with business ethics. In this chapter a definition of ethics is found elusive because of the theoretical division between deontological and teleological schools of thought. Logical reconciliation of the two was found elusive, good being either individual/institutional or social/utilitarian - defined by personal moral values or collective social consequences. While our preferred definition of ‘ethics’ for business purposes is teleological we have difficulty with its relationship to internal moral values. For example, good may be equated with acts which have good consequences for a firm, but how can this be reconciled with the (perhaps religious) belief of individuals who would classify the same acts as bad? This moral dilemma lies at the heart of our questioning the meaningfulness of business ethics.

At a philosophical level, the possibility of meaningful ‘business ethics’ must be treated as questionable. Deontology - the moral individual - can be fettered by corporate direction and uniformity. Teleology - the net moral balance - may not exist independently of profit, failing universally when the two conflict.

At a psychological level, the possibility of meaningful ‘business ethics’ can be restored. Chapter Three examines several cognitive and/or behavioural models of corporate ethical behaviour. A number of these analytical models quite clearly show the scope for both deontological and teleological ethics within a framework formed of numerous other external and internal variables. Dominant amongst the former, and necessarily intertwined with ‘ethical conduct’ is the culture of any organisation - itself a phenomena which is not ethically neutral. Chapter Four goes on to look at the sociological issues of the role of senior management and organisational culture in shaping ethical behaviour. Corporate culture is formed and expressed in many ways. One influential determinant relevant to this thesis is the ‘code of ethics’ itself: a statement which simultaneously shapes and reflects organisational culture.

The answer then to the first question: ‘Can there be a code of business ethics?’ we shall show (from the psychology and organisational literature) to be a conditional yes! The second question asks whether Australian businesses are committed to a code of ethics. They may be possible in theory, but do they exist in practice and perform the way that may be expected?
In Section 1.5 above, we reviewed the (largely US) literature on codes. This literature reveals two empirical problems. First, the literature is largely narrative (and prescriptive), although it does pose questions that merit empirical investigation. Second, the literature in America, throws no further light on the actual situation in Australia. Furthermore, such Australian studies that exist have either a small empirical base or have not distinguished the private sector component, where ethical issues have a special prominence and character. From this literature, we conclude that further empirical investigation is merited in the Australian private sector.

Drawing from this insight, we then construct an empirical agenda for this thesis that is exploratory not confirmatory. The thesis seeks to map new facts about the extent and character of codes of ethics - not to test existing or new models or theories about codes of ethics. This empirical agenda will appear unconventional to researchers upon better understood aspects of management. However, the current state of knowledge about codes of business ethics in Australia does not permit sensible construction of models or hypotheses. Rather, this study seeks to describe several salient features of codes of business ethics in contemporary Australia and to resolve some basic empirical questions.

The central question guiding this exploratory research asks whether large Australian private sector firms ‘show commitment’ to codes of ethics. This question is explored in Section 1.8 below.

1.8 Codes of Ethics: An Empirical Research Agenda

In Section 1.7 the question was asked: to what extent are Australia’s top 500 private sector firms committed to codes of ethics? The concept of ‘commitment’ to codes is a central one to the empirical research conducted for this thesis. It is not, however, a simple idea that can be translated into a solitary quantitative measure. Rather it is a complex idea that can be approached from a number of different directions. Commitment can be signified at a threshold level by having a code, but is having a code enough? Is it important or marginal? We propose to look at commitment in terms of the following issues:

- Inputs (the commitment of time and resources in developing, implementing and communicating the code)
• Outputs (the perceived benefits which flow from the code)
• Objectives (the role the code plays in terms of prescribing ethical behaviour for internal and external publics, and governments or regulators)

• Best practice (what are the characteristics of best practice business ethics?)

To focus empirical investigation on commitment to codes of ethics seven questions were asked. These questions were as follows. First, how common are codes of ethics? Second, who developed these codes and why? Third, how are they implemented? Fourth, do companies inform external publics of the codes? Fifth, what are the perceived benefits of codes? Sixth, what does code content reveal about the underlying purpose of the code and does this purpose differ between cultures? Seventh, do the more advanced Australian examples constitute best practice in some way? Let us explore these aspects of ‘commitment’ in more detail. Tests for high and low commitment on some of these questions are shown in Figure 1.1.

Figure 1.1: Indicators of Corporate Code Commitment

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Postulated High Corporate Commitment to Codes</th>
<th>Postulated Low Corporate Commitment to Codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incidence of a Code</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Origin</td>
<td>All stakeholders involved in the design process</td>
<td>Top executives and senior management only</td>
</tr>
<tr>
<td></td>
<td>Customised to the corporation</td>
<td>Borrowed from another source without alteration</td>
</tr>
<tr>
<td>Internal</td>
<td>Used in:</td>
<td>Not used in:</td>
</tr>
<tr>
<td>Implementation</td>
<td>training</td>
<td>training</td>
</tr>
<tr>
<td></td>
<td>planning</td>
<td>planning</td>
</tr>
<tr>
<td></td>
<td>performance appraisals</td>
<td>performance appraisals</td>
</tr>
<tr>
<td></td>
<td>protecting individual rights</td>
<td>protecting individual rights</td>
</tr>
<tr>
<td>Communication</td>
<td>Communicated to both internal and external publics</td>
<td>Communicated to either or neither internal or external publics</td>
</tr>
</tbody>
</table>
The first question was to determine, using survey data, the current incidence of codes of ethics by Australia’s top 500 companies operating in the private sector. In short, how common are they? Having a commitment to codes is signified first by having a code - but only at a threshold level.

The second question was to examine the ways in which organisations developed their codes. Who developed these codes and why? This question was aimed at seeing which groups or individuals had contributed to the code and from whence the document had originated. Had companies adopted another company’s code, modified another company’s code or developed their own code? Also, which individuals developed the code? Had organisations used a wide group of individuals or restricted input to only a few select individuals? The reasoning behind each company’s approach was also of interest. ‘Broad based’ involvement and customisation are taken to be more indicative of higher corporate commitment than a code that is imposed or borrowed.

A third question concerns the measures in place within organisations to assist implementation. A range of issues was explored including the training given to new employees at the time of induction; use in strategic planning; use in staff performance appraisal; and the protection of whistleblowers. The research also went beyond examining the existence and nature of codes to look at complementary activities to augment the code. These activities included the provision of ethics training committees, ethics audits, an ombudsman and the provision of ongoing ethics training for staff. By exploring ‘supporting mechanisms’ it ought to be possible to distinguish whether firms with a code have high commitment to it.

The fourth question concerned communication. High commitment to the code was taken to be signified by communication to both internal stakeholders (managers and employees) and external stakeholders (customers, shareholders and so on). Where a code is communicated solely to external stakeholders its purpose might be to improve public relations rather than ethical conduct. Where it is only communicated internally it may be an attempt at behavioural

<table>
<thead>
<tr>
<th>Perceived Value</th>
<th>Code is considered to assist profitability or resolution of ethical dilemmas</th>
<th>Code does not aid profitability or resolution of ethical dilemmas</th>
</tr>
</thead>
</table>
control rather than ethical guidance. Where it is not publicised at all it may have no role.

The fifth issue concerns the perceived value of codes of ethics. When companies consider a code of ethics adds to profitability, helps with the resolution of ethical problems, or assists in some other fashion it is considered that the company will be more committed to the code than if it is held irrelevant to these outcomes.

The sixth question was explored through a cross cultural comparison of the content of codes of ethics in Australia, comparing Australian findings with similar studies in the United States of America (Mathews, 1987) and Canada (Lefebvre and Singh, 1992). The purpose here was to determine whether or not cross cultural similarities and differences existed between the content of the codes of each country. What does code content reveal about the underlying objectives of the codes and does this purpose differ between these countries?

The seventh and final question relates to the nature of best practice and the use of supporting measures within organisations to supplement the ethos of codes of ethics. This strand of the study was based on in-depth case research of business ethics in several Australian companies, deemed to have a ‘best practice’ approach to business ethics.

The information gathered on these seven issues would, it was hoped, allow us to describe and assess different aspects of commitment to codes of ethics in larger Australian private sector firms.

To evaluate the use of codes of ethics a three stage research procedure was used. First a questionnaire was sent to the top 500 Australian companies (based on revenue) - firms which, for several reasons, are most likely to have developed a formal ethical code. A response rate in Stage 1 of 68% was achieved with this survey, with 53% returning a completed questionnaire. The second stage involved content analysis of 83 codes of ethics supplied by survey respondents. The third stage involved more detailed follow up of a small group of firms that appeared to be close to best practice.
1.9 Summary and Plan of the Thesis

This chapter has dealt with a number of issues. First it began by posing two questions about codes of business ethics: can businesses adopt codes in a meaningful way, and to what extent do Australia’s top 500 private sector firms show commitment to codes? Second, a justification for asking these questions was provided in the appearance of growing interest in business ethics in Australia as a result of the 1987 stock market crash, tendencies to self-regulation, and globalisation of business.

This latter point raised the possibility that interest in business ethics has been imported, especially from the USA. This opened larger questions about the origin and spread of ideas upon business ethics. These ideas have a long and varied history, but have culminated - in recent times - in strong and explicit attention by business and academia to ethical issues, especially in the USA but to a lesser extent in Britain and Australia.

Much contemporary interest in business ethics is channelled into the formalisation of codes of ethics. Evolving first in the USA in the 1960s, largely by corporate adoption of ‘industry’ codes, their use persists and, in recent times, appears to have grown. A definition of ‘codes of ethics’ was provided focussing on four key elements - formalisation (they are written statements), organisational norms of good conduct, influence over individual employees’ norms and beliefs, and wanted behaviour or actions. These four are the essential elements of a code. Further a distinction was drawn between codes of ethics and codes of conduct or practice, the former being more general and the latter more explicit about detailed sought behaviour.

Research on codes of ethics (largely in the USA) has tended to focus on documentary analysis. Certain questions have been posed.

Codes are likely to have content that spans the four defining elements listed above (formalisation, specifying good conduct, influencing employee values, and managing behaviours). If they are to be effective:

- Organisational specificity is likely to be a condition for codes.
• Codes should be publicised amongst internal and external stakeholders.

• Codes need to develop in a dynamic way (adapting to new needs) whilst involving in their drafting a multiplicity of stakeholders.

Research on codes of ethics in Australia has also been based on an analysis of code content. This has limited its focus. In addition, samples for analysis have been either small (Kaye) or have heavily mixed public and private sector enterprises (Farrell & Cobbin).

It was concluded that Australian research would benefit from a stronger empirical survey of large private sector firms, and from a deeper analysis of corporate commitment to codes (as opposed to simple analysis of code content).

A discussion followed on the rationale for the two questions at the beginning of the chapter. The first question asked whether codes of ethics could be meaningful. This question was explained in terms of two issues. Won’t profit seeking firms in competitive markets have to override ethical concerns where they conflict with profit? Also, it makes no sense to guide ethical values and actions in hierarchical organisations, since individuals cannot then choose morally independent actions. These questions are to be pursued in Chapters 2, 3 and 4 which explore respectively the philosophical and psychological/sociological foundations for meaningful ethical codes in business. It was indicated that at a philosophical level business ethics are questionable, but at a psychological level, valid cognitive models can be constructed showing how ethical values are learned in a corporate context. At a sociological level these individual values can be related to organisational culture. We will conclude from these arguments in Chapters 3 and 4 that meaningful business ethics are possible. This allows us to proceed to the second question - to what extent do large private sector firms in Australia show commitment to codes of ethics?

This question is dealt with in Chapters 5, 6, 7 and 8, which respectively describe the fieldwork procedures, and report and analyse results. ‘Commitment’ is the key concept to be operationalised by the research. This is unpacked in a number of ways:
• Survey research is used to analyse indicators of corporate code commitment such as incidence, origin, implementation, communication methods, and perceived value.

• Evidence on the content of Australian codes is compared with US and Canadian data to see if ‘commitment’ means different things in different cultures. This question came to focus on different cultural objectives for codes.

• More detailed case study analysis of ‘best practice ethical firms’ is used to explore ‘commitment’ in detail.

Chapters 6, 7 and 8 report empirical results on the research issues listed in Section 1.8 (above) - the incidence of codes, inputs, outputs, objectives, and best practice. Chapter 9 concludes by summarising the various theoretical and empirical findings and by providing an overall assessment of Australian commitment to codes of ethics.
Chapter 2

Are Business Ethics Possible? Defining Ethics and Business Ethics

2.1 Introduction

In Chapter One the question was asked: can businesses adopt codes of ethics in a meaningful way or are business ethics a contradiction in terms for profit seeking organisations in a competitive market? Two specific issues were identified. First, can profit-making firms in competitive markets pursue ethics that conflict with the profit imperative, and if not, does it make sense to introduce such separate ethical imperatives. Second and similar, if ethical acts require individuals to observe their own moral judgements, can hierarchical organisations be subjected to ethical tests? Both issues raise the question: is there room in business for ethical values and acts independent of profitable behaviour, or acts directed by legal authority?

These questions shall be approached from a definitional standpoint in which we ask what is meant by ethics, business ethics and codes of business ethics. We begin by looking at definitional problems that are innate to the field of ethics.

A definition of ethical codes was offered in Chapter One. Taken from McDonald and Zepp (1989:61), based on Hosmer’s work, the definition reads as follows:

*Ethical codes are statements of the norms and beliefs of an organisation ... they are the ways that senior people in the organization want others to think. This is not censorship. Instead, the intent is to encourage ways of thinking and patterns of attitudes that will lead towards the wanted behavior.*

Four key terms were derived from this passage; these being written statement, good conduct, beliefs and actions. A code of business ethics would normally be a written statement of an organisation’s norms and beliefs about good conduct that seeks to influence the beliefs and actions of individuals in the organisation.

It was noted in Chapter One that this definition raises theoretical problems. Defined in the way proposed here, it may be that there is no possibility for the
meaningful existence of codes of ethics in business; they may be a contradiction in terms. This chapter seeks to explore this issue. It confronts several questions raised in Chapter One - in particular do markets and hierarchies make codes of ethics necessarily subservient to profit-making and legal authority and therefore, meaningless as an independent statement of principles to guide actions?

The chapter falls into four main parts. The first looks at general definitions of ethics revealing the wide array of distinct ‘moral philosophies’ that have been propounded as a means to understand ‘good’. The second part explores in more depth the distinction between deontological and teleological theories of ethics - the former identifying ‘rightness’ in rules and the evaluations of the moral individual, the latter in the consequences of action. The third section goes on to look at the subsidiary problem of defining business ethics. The fourth section then examines the relation between business ethics and profit.

Before proceeding further, a note on terminology is necessary. The word ethics (previously just a plural of ethic) has come to be used in the singular in the business ethics field. Thus the writer will say ‘ethics is’. That usage will be followed here.

2.2 General Definitions: Ethics and Morals

In order to attempt to arrive at a definition of business ethics the need exists first to define the term ‘ethics’. However, a universally accepted definition of ethics has not been developed. The reason for this lies in the different interpretations of the term, and varying philosophical approaches to the term.

As Ferrell, Gresham and Fraedrich (1989:56) argue:

*The concept and definition of ethics is often vague because of the term’s many nuances ... we view the term as meaning the study and philosophy of human conduct with an emphasis on the determination of right and wrong.*

From where does this plurality of meanings stem? It lies in a philosophical dilemma about the ways in which the meaning of ‘right and wrong’ are established. This dilemma arises from the irreconcilability of two equally valid approaches.
The first approach identifies ethics with an external code. Thus Henderson (1982) sees ethics as a set of principles that yield a code of behaviour prescribing ‘right’ and ‘wrong’. Davis (1988) holds a similar view, arguing that ethics is based upon group standards of conduct that each group member should follow. Lewis and Speck (1990) go on to expand this approach, requiring that ethical codes govern behaviour as well as values. What then is the difference between ethics and law? This issue has been debated at length. It is generally accepted that law and ethics cannot be the same because it is possible to have unethical laws and because individuals can conduct ‘good’ acts which break the law. Law is a construct of governments and courts. We cannot assume that ‘right’ and ‘wrong’ are similarly determined.

This objection introduces the second equally valid approach to ethics – that ‘good’ and ‘bad’ can be determined by moral individuals independently of social codes. Thus ethical behaviour is consistent not with law, but with internationalised values about right and wrong. Hunt and Vitell (1986) and Fraedrich and Ferrell (1992a) concur in this approach drawing on Taylor’s (1975) approach to ethics. The aspect of ethics they discuss concerns the way individuals form an ethical perspective as a result of a learning process involving parental and other social influences. Sociologically, these influences can be shown to form moral judgements just as laws, customs and codes can play a part, but what is formed is an internal moral judgement. Such individual moral judgements may be patterned into consistency by social forces but they need not be.

Whilst our mores may be basically homogenous that does not mean each individual will address each moral issue from the same philosophical standpoint. Thus it becomes possible for good and bad to mean different things to different moral individuals. At an extreme this view is difficult to accept both because it would lead to lack of consistency in meaning (good and bad have no commonly agreed meaning) and because it is likely to be inconsistent with a moral basis for social order.

Avoiding solipsist approaches to ethics takes us back to the opening position where the meaning of good and bad is derived from ethical social codes, but as we have seen this is difficult to reconcile with conflicting claims from moral individuals where their perceptions of right and wrong or good and bad differ from law, custom or any other socially agreed code. Herein is the central
dilemma in defining ethics or what is good or bad. As long as we continue to accept that both individuals and society can make valid moral statements we shall find it difficult to reconcile the two when they differ. This is why a commonly accepted definition of ethics is elusive.

Lewis and Speck (1990:215) have compiled the following list of moral philosophical theories divided into teleological and deontological theory groupings.

Figure 2.1: Moral Philosophies

<table>
<thead>
<tr>
<th>Teleological Theories</th>
<th>Deontological Theories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Altruism (Kant, Hare, Nagel)</td>
<td>Axiology (Greek philosophers)</td>
</tr>
<tr>
<td>Amoralism (Plato’s Callicles)</td>
<td>Balance Sheet Approach (Janis and Mann)</td>
</tr>
<tr>
<td>Asceticism (Greco-Roman religions)</td>
<td>Categorical Imperative (Kant)</td>
</tr>
<tr>
<td>Casuistry (Catholic tradition)</td>
<td>Contractarianism (Hume, Buchanan, Gauthier)</td>
</tr>
<tr>
<td>Conventionalism (Carr)</td>
<td>Critical Questions Approach (Leys, Nash)</td>
</tr>
<tr>
<td>Critical Theory (Frankfurt School, Geuss, Jay)</td>
<td>Dogmatism (Religious sects)</td>
</tr>
<tr>
<td>Cynicism (Greek philosophers)</td>
<td>Emotivism (Ayer, Stephenson, Scheler)</td>
</tr>
<tr>
<td>Determinism (Augustine, Abelard)</td>
<td>Existentialism (Kierkegaard)</td>
</tr>
<tr>
<td>Dialectical materialism (Hegel, Marx)</td>
<td>Golden Rule (Christ)</td>
</tr>
<tr>
<td>Disclosure Rule (Media sanctions)</td>
<td>“Good Reasons” Ethics</td>
</tr>
<tr>
<td>Doctrine of the Golden Mean (Aristotle)</td>
<td>Hypothetical Imperative (Kant)</td>
</tr>
<tr>
<td>Egoism (Plato, Aristotle)</td>
<td>Intuitionism (Price, Whewell, Moore, Ross, Prichard)</td>
</tr>
<tr>
<td>Epicureanism (Epicurus)</td>
<td>Justice (Rawls, Bowie)</td>
</tr>
<tr>
<td>Free Will (Nielsen)</td>
<td>Legal/logical Positivism (Comte)</td>
</tr>
<tr>
<td>Hedonism (Hume)</td>
<td>Market Ethic (Smith)</td>
</tr>
<tr>
<td>Instrumentalism (Dewey)</td>
<td>Moral Obligation (Bradley, Ross, Hartmann, Scheler)</td>
</tr>
<tr>
<td>Law of Love (Christ, Apostles John and Paul)</td>
<td>Naturalistic Fallacy (Moore)</td>
</tr>
<tr>
<td>Means-end Ethic (Machiavelli)</td>
<td>Objectivism (Rand)</td>
</tr>
<tr>
<td>Might-equals-right (Nietzsche, Spengler, Schopenhauer)</td>
<td>Organization Ethic (Codes of conduct)</td>
</tr>
<tr>
<td>Naturalism (Aristotle, Mill, Hume)</td>
<td>Pluralism (Fried, Brandt)</td>
</tr>
<tr>
<td>Nihilism (19th C. Russian movement)</td>
<td>Prima Facie Duties (Ross)</td>
</tr>
<tr>
<td>Pragmatism (Pierce, James, Dewey)</td>
<td>Principle of Generic Consistency (Gewirth)</td>
</tr>
<tr>
<td>Professional Ethic (Professional Codes)</td>
<td>Principle of Proportionality (Garrett)</td>
</tr>
<tr>
<td>Semantic Analysis (Korzybski, Leys, Kron)</td>
<td>Puritanism (Puritans)</td>
</tr>
<tr>
<td>Situationalism (Fletcher)</td>
<td>Relativism (Protagoras, Hobbes, Spinoza)</td>
</tr>
<tr>
<td>Spirit of Seriousness (Sartre)</td>
<td>Religious Legalism (Fanatics)</td>
</tr>
<tr>
<td>Subjectivism</td>
<td>Revelation Ethic (“Godseekers”)</td>
</tr>
<tr>
<td>Utilitarianism (Bentham, Mill, Sidgwick)</td>
<td>Rights (Hobbes, Locke, Brandt, Sobel, Dworkin, Nozick)</td>
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<tr>
<td></td>
<td>Social Darwinism (Darwin, Spencer)</td>
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<td></td>
<td>Stoicism (Zeno)</td>
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<td>Ten Commandments (God/Moses)</td>
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<td></td>
<td>Truth/truthfulness (Williams)</td>
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<tr>
<td></td>
<td>Universalism (Confucius, Pincheler and DeGeorge)</td>
</tr>
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<td></td>
<td>Voluntarism</td>
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From this tension between the ethical individual (good is defined by the individual’s moral judgement) and the ethical society (good is defined by compliance with socially agreed norms, customs or laws) we can derive a fundamental division within moral philosophy. As shown on the previous page, this is the distinction between deontological and teleological theories of ethics. The terms ‘teleological’ and ‘deontological’ theories are the designated terms for the differential grouping of moral philosophical theories. Each group has a basic philosophical underpinning that enables us to categorise the listed philosophies into one of the two selected areas. Does this distinction between teleological and deontological advance our understanding of ethics and, in particular, business ethics?

2.3 Deontological and Teleological Theories

Ferrell and Fraedrich (1991:45) claim that,

*Deontology refers to moral philosophies that focus on the rights of individuals and on the intentions associated with a particular behavior, rather than on its consequences. Fundamental to deontological theory is the idea that equal respect must be given to all persons.*

This school of philosophical thought has been influenced by the thinking of Kant (1724-1804): what he termed the ‘categorical imperative’. The belief is that individuals should only act if they accept ‘the maxim’ that such an act may become ‘a universal law’ (Robin et al., 1989). These views stem also from Socratic thinking. The inherent desire is to establish a set of universal rules by which one could live (Hunt et al., 1986).

The deontologist believes in the existence of certain absolute rights to which the individual is entitled. These rights are centred around the freedoms of conscience, consent, privacy, speech and that of due process (Ferrell et al., 1991). Robin and Reidenbach (1987:46) sum this up by saying that,

*... the deontologist might define an activity as ethical if it involved true freedom of choice and action, were available to all, injured no one, and were a benefit to some.*

Within deontology there exist two subcategories that need to be considered. They are rule deontology and act deontology. In respect to *rule deontology,*
ethicality is determined by the way that one conforms to rules. If one is following the rules then one is acting ethically. 

Act deontology maintains that the experience gleaned from past acts and their subsequent outcomes is the basis upon which one should behave. One must assess each act at the moment in time at which it is to be committed and decide upon one’s behaviour according to the situational specifics prevailing at that time (Fraedrich, 1992).

To conclude this section on deontological theory Ferrell, Gresham and Fraedrich (1989:57) sum up deontological philosophy by saying that,

*Fundamental to the dogma of deontological theories is the inherent rightness of the behavior where the focal point is the individual, not society ... sets of rules and their emphasis on the rightness of behavior are the essence of deontological thought.*

The teleological approach runs in opposition to the deontological approach. Hunt and Vitell (1986:6) describe teleological ethics as follows,

*Teleologists propose that people should determine the consequences of various behaviors in a situation and evaluate the goodness or badness of all the consequences. A behavior is then ethical if it produces a greater balance of good over evil than any available alternative.*

Williams and Murphy (1990) concur with this view. They base their view upon Kimmel’s (1988) definition which states that the teleological philosophy believes an action to be ‘morally right or obligatory’ if it produces the effect of good outweighing evil.

Two of the major subcategories within the teleological philosophical framework are egoism and utilitarianism.

Egoism is based upon achieving the greatest good for the individual. In this case, the individual is the prime consideration. If an act produces the greatest good for the individual then it is acceptable. Whilst deontological theories are based upon the rights of the individual, the deontologist position would subjugate the rights of the individual if it meant impacting negatively upon another party. With egoism no consideration of the effects on another party is contemplated.
The teleological theory which has been given greater prominence in business is utilitarianism. Hansen (1992:524) defines utilitarianism as being,

\[ ... \text{concerned with the consequences of actions and is rooted in the thesis that an action is right if it leads to the greatest good for the greatest number or to the least possible balance of bad consequences.} \]

Robin, Giallourakis, David and Moritz (1989) argue that in trying to attain this ideal that one must conduct a ‘social cost benefit analysis’ of the particular action under consideration and then one acts upon the results of that analysis. Within the broad framework of utilitarianism are similar distinctions as occur within the deontological theories. Thus, act utilitarianism and rule utilitarianism are distinguished.

The advocates of act utilitarianism focus their attention upon the nature of acts. They believe that an act is morally right if it produces the greatest good for the greatest number of people and unethical if the act produces inefficient outcomes for the society.

Rule utilitarians also focus upon the greatest good for the greatest number of people, but their method of attaining their ends is through the implementation of whichever set of rules will accomplish the end for which they are striving (Fraedrich, 1992).

In comparing deontological and teleological philosophies, Robin and Reidenbach (1987:47) succinctly sum up the difference when they conclude that,

\[ \text{Deontology has the individual as its major concern and unit of analysis whereas utilitarianism is decidedly social in character and focuses on the welfare of society as a unit.} \]

It should be noted that Robin and Reidenbach (1987) make teleological theory and utilitarianism synonymous.

Deontological and teleological ethics resist philosophical reconciliation. The test of meaning lies either in what is considered good by the individual (deontology) or what consequences are best for society (utilitarianism), but these may conflict – and cannot, therefore, be the same. In practice there may be a sociological reconciliation of the two: thus the moral individual may judge
what is good on the basis of learned values which are internalised, but which originate in law or custom which was established for a utilitarian purpose – the greatest good for the greatest number, but this is a contingent reconciliation, not a necessary one.

Any proposed definition will, therefore, be either deontological or teleological. The definition proposed for use in this thesis is as follows:

_Ethics is a set of mutually held moral beliefs, usually outside of, but not always exclusive of, the law that exist between members of a societal group and which enable that group to expect commonly acceptable behaviours from group members in respect to questions involving ‘right’ and ‘wrong’._

This definition is consistent with the meanings commonly given by business ethicists (Taylor, 1975; Henderson, 1982; Hunt and Vitell, 1986; Raiborn and Payne, 1990; and Fraedrich and Ferrell, 1992a).

The definition is founded in a priority given to social outcomes over individual rights that is inherent in business organisational forms. In contrast, no deontological ethics can be easily reconciled with business organisation hierarchies and profit objectives. Clearly the focus of this definition on the social consequences of acts to a group is primarily teleological. Deontology may be encompassed to the extent that ‘group members’ may also determine ‘good’ individually - making it a matter of their intention. However, this is a contingent aspect of good, not a necessary one, and therefore secondary. The definition of ethics that we use is thus teleological in nature.

2.4 Defining Business Ethics

Explicit in the preceding section was a preference for teleological ethics (utilitarianism) over deontological ethics in a business context shaped by hierarchical structures and profit objectives. It is also a preferable approach to business ethics because it is consistent with the views expressed by business ethicists when defining what they mean by ‘business ethics’. Let us review these views.

First, there is evidence of difficulty in finding a neat and acceptable definition of business ethics. For example, De George (1987:205) in his article, entitled ‘The
Status of Business Ethics: Past and Future’, made a concerted attempt to define the field of business ethics. He contended that there were 5 kinds of activities that have been considered within business ethics:

1. the development and analysis of cases of immorality in business  
2. the empirical study of business practices  
3. clarifying basic terms and uncovering ethical propositions in business  
4. raising metaethical questions and possibly revising ethical theory  
5. untangling of embedded problems eg. the role of multinationals  

He goes on to say that, 

The field, as I have defined it, is an interdisciplinary one. It is not defined by a simple methodology. The methodologies of ethical and philosophical analysis, reasoning and argumentation are applicable, as are the methodologies of religious and theological thinking, and the methodologies of the various areas of business education. The field, as interdisciplinary, is comparable in this respect to other interdisciplinary fields: 

The area of business ethics is complex and draws from disparate academic and practical fields of endeavour ranging from theology to business education. Trying to define it in one all encompassing, succinct definition is therefore an unenviable task. 

In an attempt to define business ethics incorporating its many facets, Lewis conducted a study which was published in 1985 called, ‘Defining ’Business Ethics‘: Like Nailing Jello to a Wall‘. Lewis (1985:379) was interested in three research questions:

(1) the way in which ’business ethics‘ is defined in the literature and by business people;  
(2) the points of agreement on a definition of ‘business ethics‘; and  
(3) whether it was possible to synthesise a definition of ‘business ethics‘ from the definitions that existed.  

The methodology included the use of both primary and secondary resources. One hundred and fifty eight textbooks were selected from nine management areas and fifty articles pertaining to ethics and morality in a business context were also reviewed. Also three hundred and fifty nine questionnaires were distributed to a sample of blue collar workers and white collar executives. One hundred and eighty five were returned. Lewis collated all of the definitions of
business ethics for commonality using an expert panel of two. In the case of
disagreement amongst the experts, they deferred to him for final adjudication
on the allocation to an appropriate category for the idea being expressed.

Lewis established, from his research, a list of 38 categories of definitions of
business ethics expressed in the management literature by business people and
writers. (Appendix B) He proffered a synthesis of the definitions based upon
the first four concepts which are highlighted in Appendix B. These first four
concepts are:

1. Rules, standards, or codes governing an individual
2. Moral principles developed in the course of a lifetime
3. What is right and wrong in specific situations
4. Telling the truth

The definition that Lewis formulated was:

‘business ethics’ is rules, standards, codes, or principles which provide
guidelines for morally right behavior and truthfulness in specific situations.

(Lewis, 1985:381)

Lewis (1985:382) added to this definition that the following areas may also
legitimately be seen to form the basis of a definition of business ethics:

(1) focus on social responsibility;
(2) emphasis on honesty and fairness;
(3) emphasis on the Golden Rule;
(4) values that are in accord with common behavior or with one’s
   religious beliefs;
(5) obligations, responsibilities, and rights toward conscientious work or
   enlightened self interest;
(6) philosophy of what is good and bad;
(7) ability to clarify the issues in decision making;
(8) focus on one’s individual conscience and/or legal system;
(9) system or theory of justice questioning the quality of one’s relationship;
(10) relationship of means to ends;
(11) concern for integrity, what ought to be, habit, logic, and/or principles
    of Aristotle;
(12) emphasis on virtue, leadership, character, confidentiality, judgment
    of others, placing God first, situationalness, temporalness, and
    publicness.

The need to consider so many possible elements leads Lewis to conclude that a
definition of business ethics is very difficult to achieve. Indeed, it is easy to see
that his ‘comprehensive’ approach incorporates both deontological and teleological ethics and prefers neither. Simplifying the term ‘business ethics’ into a manageable definition is difficult because the area is one of complexity, premised on diverse, philosophical theories.

John Loucks (1987), who at the time of writing was the Chief Executive Officer of Baxter Travenol, contends that ethics in the business environment is centred on trust. Trust is a crucial element of the interaction. By trust, Loucks (1987) means that you need to rely on the implicit relationship that exists between parties when one does business. That is to say the act of doing business implies an exchange of goods in return for an agreed form of payment and is conducted using accepted business conventions.

Loucks believes however, that people will act in their own self interest. Whilst self interest is the major motive, Loucks suggests that a system must exist that is based upon trust amongst individuals and in turn amongst organisations. Without this element of trust the business system, as we know it, cannot function effectively. Loucks (1987:2) contends in relation to ethics in business that,

*It is a part of management that balances ideals against reality. During a business career, every manager can be virtually certain that he or she will have to make some rugged ethical decisions.*

Cooke (1986) highlights one of the major salient features within the area of business ethics: that as in ethics, there is not one right answer but a range of possible alternatives to solve any ethical dilemma. The solution depends upon the perception of the participants and the way that they choose to act in any given circumstances.

Clearly the contributions chosen are varied, suggesting that there is not a universally agreed definition of business ethics - any more than there is of ‘ethics’. However, there is a deontological content running through most of the ‘definitions’ advanced. De George is not easily categorised in this way as his essential concern is the empirical explanation of business ethics. However, Lewis does focus on ‘rules’ in his definition and sees business ethics as grounded in ‘conscience’, ‘integrity’, ‘virtue’ and other characteristics of the moral gyroscope. Loucks' focus is on ‘trust’ and Cooke’s eclectic acceptance of situational meanings are also characteristic of deontology.
There is a balancing concern with teleology in some writings on business ethics. Thus, Sir Adrian Cadbury (1987:73) sums this idea up and adds to it when he says,

_Society sets the ethical framework within which those who run companies have to work out their own codes of conduct. Business has to take account of its responsibilities to society in coming to its decisions, but society has to accept its responsibilities for setting the standards against which those decisions are made._

Hence, there is a responsibility on business managers to act in line with their beliefs. They must however bear in mind the societal mores and values that come into play when one makes a business oriented decision. Both the society and business are mutually dependent. Business must consider the prevailing societal views when making decisions. However, society must also realise that the way that businesses behave and act, is in accordance with the limits placed upon them by the society.

The discussion of business ethics above is consistent with the account of ethics in the previous section. Thus, deontological and teleological approaches are synthesised, seeing business ethics (like ethics more generally) arise out of both the society and the individual (the organisation and the employee), and requiring both the individual’s learned values of ‘good’ and the group’s assessment of the ‘social utility’ of actions. Sociologically we can accept this interrelation, but logically, as with our general definition of ethics, the primary element is teleological. Business Ethics are social in origin and action oriented. Business Ethics exist because the wider society imposes ethical duties and the ethical conduct of firms is the primary test of good and bad - not individual intentions.

However, there exists a special problem in business when determining what is ‘good’. Normally the intentions and values of the individual and the assessments of the group harmonise not through ‘learned and shared values about good’ but through a common pursuit of profit. This pursuit of profit defines ‘right’ or ‘good’ acts. Does this eliminate the room for separate and meaningful evaluations of ‘right’ or ‘good’ values and actions?

2.5 Business Ethics: Profit versus Good
Perhaps the most confronting approach to the relation of economic and ethical goals is to assert that business may only pursue profitability and that any separate ethics is superfluous. This has been the view of several American scholars. However, it is not necessarily a correct view nor the only view that is possible upon the profit/ethics nexus. In this section we look first at those who reject ethics because of the importance of economic motivation; we look at the critics of those authors who - by implication - reassert the possibility of independent ethics; and we look at the view that ethical behaviour coincides with profitable behaviour.

Eminent scholars, such as Drucker (1981) and Friedman (1962), challenge the need for the concept of business ethics. In fact, both of them call the validity of the term into question. Both of them dismiss the term and the idea of the need for business ethics as a distinct body of propositions.

Drucker (1981:20) attacks the notion of ‘business ethics’ largely on the grounds that it should not be distinguished from ethics for society as a whole. He uses an argument based upon an examination of the historical, philosophical context of ethics to suggest that,

*Viewed from the mainstream of traditional ethics, “business ethics” is not ethics at all, whatever else it may be. For it asserts that acts that are not immoral or illegal if done by ordinary folk become immoral or illegal if done by “business”.*

Drucker goes on to expand his argument against business ethics by aligning the principles inherent in business ethics with that of casuistry. Casuistry is premised on the belief that rulers, as a consequence of their position and responsibility, need to ‘strike a balance’ between their own personal ethical stances and the commitments that they have to those who rely upon them for decision making. This principle, Drucker contends, can be applied to company executives.

His treatise (Drucker, 1981:34) on the subject becomes more virulent as his paper develops towards its conclusion when he contends that,

*“Business ethics” this discussion should have made clear, is to ethics what soft porn is to the Platonic Eros; soft porn too talks of something it calls “love”. And insofar as “business ethics” comes even close to ethics, it
comes to casuistry and will, predictably, end up as a fig leaf for the shameless and as special pleading for the powerful and the wealthy.

Drucker’s (1981:35) parting shot is that,

“business ethics” might well be called “ethical chic” rather than ethics—and indeed might be considered more a media event than philosophy or morals.

Friedman (1962:133) is as damning as Drucker in his criticisms of business ethics, but for a different reason. He contends that,

... there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.

Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.

This argument implies either that profit seeking behaviour is ethically neutral (pragmatic) or that it is ethically valid or good. Thus, Litzinger and Schaefer (1987) claim that Friedman’s position rejects ‘business ethics’ as a misnomer that has nothing to do with the real precepts of business. Either one conducts one’s business in a pragmatic manner or one ceases to conduct it.

A number of writers have defended the concept of business ethics against these attacks by Drucker and Friedman. Hoffman and Moore (1982:299) in their article, entitled ‘What is Business Ethics? A Reply to Peter Drucker’, contend that,

Whether Drucker’s denunciation of business ethics stems from fear of threat or simply from lack of information does not matter. What does matter is that Drucker’s ‘business ethics’ is a straw man which bears little or no resemblance to the real thing.

Hoffman and Moore (1982) dispute Drucker’s (1981) definition of casuistry. They believe that Drucker has misapplied the principle. They suggest that the term implies that all individuals are expected to act in an ethical manner and that the term is not specifically reserved for those in power or in control of business. Therefore, they put forward the idea that business ethics is not aimed at determining special treatment for business but that it only expects from
business the same moral and ethical behaviour that it would expect from any other member of the society.

Hoffman and Moore (1982) believe that Drucker (1981) has missed the point in respect to his historical analysis of the role of business ethics. Drucker believes that the hostility to business goes back to puritanical times in the United States of America. Yet, Hoffman and Moore would suggest that the pre-eminence of business ethics is because of a recent perceived failing, by the general community, of business to act in the general good of the society. They therefore suggest that the mutual obligations of business to the community and the community to business need to be restated. They see business ethics as the means to this end.

Williams (1982) examines Drucker’s (1981) theory in respect to casuistry and business ethics. Rather than use it to dismiss the concept, Williams uses the concept of casuistry to support the need for business ethics. He says that one needs to examine the type of individual that one perceives that one is becoming and to examine the impact upon one’s business of the business decisions made. Even though one may have developed a substantial moral character and perspective and a detailed knowledge of ethics, the need still exists for judgements based upon prudence. Williams contends that this approach is one of ‘genuine casuistry’ because it endeavours to bring ‘proportionate reason to the issue and to realise the best possible resolutions’.

Friedman (1962) also has his critics. Grant (1991), believes that the Friedman belief is rooted in empirical errors. He suggests that Friedman (1962) is incorrect to assume that business is an economic activity that is autonomous. In fact Friedman (1962), according to Grant (1991), extols the way in which economic freedom is the catalyst for political freedom. Yet at the same time as being the area that guarantees political freedom how can it therefore maintain a non-involvement with politics?

Grant (1991) also challenges Friedman’s (1962) notion that business managers act in the complete interest of shareholders and at the same time against their own self interest. The theory may appear to be acceptable but human behaviour in reality does not approximate this total subservience.
The final area that Grant attacks is the Friedman philosophy that greed yields good. Grant (1991) suggests that short term economic expediency will not always lead to the best possible scenario. He cites the environmental damage that has been perpetrated in western industrialised nations as a stark reminder that greed is not always beneficial to society. Short term gain economically may lead to long term pain for the society.

Grant (1991:907) in his article, ‘Friedman Fallacies’, criticises Friedman’s arguments because,

> Upon examination, however, the simplicity turns out to be oversimplification, the certainty is seen to conceal fundamental ambiguities, and thus the air of finality is dissipated in a recognition of fundamental fallacies in Friedman’s rhetorical extravagance.

Grant (1991) goes on to point out that business does not operate in a vacuum isolated from the other areas of life. It should not be viewed in terms of being different in character and responsibilities to other societal activities.

Critics of Friedman and Drucker tend to agree that business ethics exist because ‘business’ is an activity permitted by society and that the values (or ethics) of that wider society must therefore influence the way business is conducted or profits sought. Thus, Camenisch (1991:246) whilst talking about marketing, outlines a reason for the existence of ethics in marketing which one could argue is transferable to the business world in general. He says,

> It occurs in society, with society’s permission and support, and purportedly, in part for society’s benefit. Presumably it is therefore to some extent subject to the moral regulations and expectations society and potential customers attach to it.

One can argue from many perspectives about whether business ethics should exist. However, the same individuals who favour the approach of the pragmatist, that business is there to make a profit without ethical pressures from outside sources, should recognise that the pragmatic approach to business in the 1990s is to recognise that the environment in which one conducts business is subject to scrutiny by consumer pressure groups and other ‘value makers’. These groups can and do influence the buying patterns of consumers. To ignore them could impact adversely upon profit.
A further view of the profits/ethics nexus is the assertion that ethical behaviour is also profitable - the two are mutually reinforcing. This interrelationship between the pursuit of ethical business practices and profits is one that became evident during Baumhart’s 1961 survey of United States managers. In respect to the perception by managers of the interrelationship between ethics and profit, Baumhart (1961:10) said,

This conclusion would ignore the belief of our respondents that “sound ethics is good business in the long run.” Only one respondent in a hundred disagrees with this statement.

Johnson’s paper (1981), entitled ‘Ethics and the Executive’, contends that if one engages in profitable business then, in most cases, one must be operating in an ethical manner. He believes that those who do not adopt ethical business practices would face the wrath of the community and legislators. Johnson cites prosecution, adverse publicity, low employee morale, deteriorating productivity, loss of sales and government intervention as ways in which people who act in an unethical business manner will be affected.

Aupperle, Carroll and Hatfield, in their 1985 paper, examined ten major studies conducted in the period 1972 to 1979 that tried to establish a link between corporate social responsibility and profitability. They looked at each one in the light of the methodology, the performance criteria, the implications of the findings and the limitations of the study as they perceived them. (Appendix C) Aupperle et al., (1985:462) conducted their own study in an attempt to link corporate social responsibility and profitability of firms. They concluded that,

The profitability of firms that did social forecasting was not found to be statistically different from that of firms that did no forecasting. In addition, the profitability of firms having a corporate social responsibility committee on their corporate boards did not significantly differ from that of other firms. It seems that there is insufficient evidence to support the claim that socially responsible firms are more profitable than other firms.

Some recent literature on this issue suggests that there has been a positive correlation between corporate social responsibility, i.e. acting ethically, and profitability.

The St James Ethics Centre published an article in its Spring 1993 edition of its magazine, City Ethics, entitled ‘Banking on social responsibility?’. The article examined the profitability of socially responsible companies compared to
others. It cited comments in *The Australian Financial Review* and *The Economist* which it believed positively linked the two concepts.

A trade group in the United States of America has been formed amongst socially responsible companies. It is called Businesses for Social Responsibility and its president, Mr Michael Levett, makes the assertion that an organisation’s degree of social responsibility will impact positively upon its prosperity. Levett suggests that ‘corporate correctness’ will be just as essential a factor as brand loyalty in the minds of consumers in the 1990s (The St James Ethics Centre, 1993c).

Malachowski (1990) supports this latter contention in his example concerning the booklet called *Shopping for a Better World*. The particular publication gives an ethics rating to 1200 of the United States of America’s most well known grocery products. In the first six months the sales of the booklet reached 300,000 copies. Subsequent marketing research aimed at determining the effectiveness of the publication found that 80% of the purchasers believed that they had changed their shopping habits as a result of the contents of the publication.

As with the general topic of business ethics, the focus upon the interrelationship between profit and ethics has evolved into a new stage of public awareness and consciousness concerning the issue. This obvious effect in the 1990s upon profit, as suggested by Levett and Malachowski, leads the sceptic to suggest that companies will pursue ethical behaviour, not because of its intrinsic self-worth, but because of the perception by investors that if one is ethical then it will lead to a better bottom line. Hopefully, Groucho Marx was not correct when he said,

> The secret of life is honesty and fair dealing. If you can fake that, you've got it made.

(The St James Ethics Centre, 1993c:3)

However, Dolenga (1990:15-16) in a more critical view argues that,

> “the ethics is good for business” approach is a rather low level, uninspiring, perhaps even philistine appeal to the more crass instincts of businessmen. Furthermore, the very notion that individuals and companies will be rewarded for being good (i.e. adhering to high ethical standards) masks the difficulties involved and trivializes the concept of ethics as a guide for corporate behavior. If it were easy to be ethical, business ethics would not be an issue!
Dolenga presents a most compelling argument that one should also consider: one should be ethical because it is the right thing to do. If benefits flow from that as a consequence to one’s actions, then so be it but, the pursuit of financial benefits should not be the motivation to act ethically.

Much of the business ethics literature has a normative flavour. Writings about how corporations should behave tend to confuse descriptive (is) and prescriptive (ought) propositions. Thus, while we may value the ideal that ethical behaviour should be profitable, we should not infer from this that ethical behaviour *is* profitable. Examples can easily be found where this is not the case: unethical firms have been profitable and ethical ones have gone bankrupt.

The issue is further confused if the ‘costs of unethical behaviour’ (through loss of customers and prosecution) are invoked as the reason why ethics and profits go together. Clearly, this happy coincidence can only occur if ethics have been separately defined and enforced by a society that is keen to stop firms acting in an unethical and profitable manner.

Implicit in this debate is a central point - that ethical and profitable behaviours may or may not coincide. Indeed only because the two are conceptually distinct is it possible to debate their relation as this chapter has. Clearly then the reductionist view of Friedman should be rejected philosophically: it makes sense to speak of unethical acts which lead to profit, and the converse. In practice, the two may coincide such that ethical behaviour is profitable, but this is a contingent statement that may be more or less true or false. We conclude also then that ‘business ethics’ is not an oxymoron - a necessary contradiction. Good business is not necessarily unethical. This creates the possibility that ethical codes may play a contingent role in corporate behaviour, influencing ethical values and acts in an uncertain relationship with profit seeking behaviour.

A second ‘problem’ with business ethics persists - that individuals are not free to make ethical decisions in hierarchical decision making structures such as businesses. It is to this issue - can the individual make ethical decisions - that the next chapter turns.
2.6 Summary

This chapter began by asking: are business ethics possible? Specifically, the charge that ‘business ethics is an oxymoron’ had to be confronted at a conceptual level.

The general literature on ethics and morals raises many questions - about the relation between the individual and society, ethics and law, how we learn what is good, and how we reconcile individual differences about what is good? Many theories confront these issues; they do not agree on answers. Specifically, a persistent tension exists between conflicting, yet equally valid visions of ethics stemming respectively from external codes and internal conscience.

Simplifying the problem, we can examine ethics through a distinction between ‘deontological’ and ‘teleological’ theories. The distinction lies respectively in the focus on the moral gyroscope of the individual (their rights, values and intentions) and the consequences of their acts to the wider society. Arguing that ethics are only possible or meaningful in both an individual and a social context, this writer sees the most fruitful approach as that which links deontological and teleological approaches. Thus, ‘what is good’ entails both the individual and the wider society - the intentions and values of the former and the consequences to the latter. However, this ‘fusion’ arises sociologically; logically deontology and teleology remain distinct. Indeed the definition of ethics proposed in the thesis is teleological or utilitarian.

This problem of philosophical reconciliation runs through the separate discussion of business ethics. It may also be found in the constituent elements of the definition of ‘codes of ethics’ with which the chapter commenced. Again, teleology was adapted as the prevailing approach. Business ethics may exist less because individual businessmen mean well, and more because society evaluates consequences in utilitarian ways.

The chapter concluded with a discussion of profits and ethics. First it considered the sceptics - Friedman and Drucker who dismiss business ethics as superfluous - firms need only act in an economically rational way. This view was itself criticised and dismissed as trivial and reductionist. Firms operate in a social setting; their existence is possible because of a wider society. The values
of that society determine what firms may or may not do to make a profit. Ethical and profitable behaviours may thus be different. It may happen that ethical behaviour is also profitable, but this was argued to be a contingent rather, than a necessary relationship. ‘Business ethics’ should not be confused with ‘economic self interest’: they are different, but equally economic activity is always grounded in ethical values.
Chapter 3

Can Individuals Make Ethical Decisions in Business?

3.1 Introduction

In Chapter Two a distinction was drawn between deontological and teleological theories of ethics and business ethics. The distinction polarises the respective roles of the individual and society in deciding what is good, and of the intention to perform an act and the evaluation of its consequences. It was noted that the two approaches may be contingently reconciled sociologically, because the intentions of the moral individual (the basis of deontological ethics) are formed by or learned through social processes with utilitarian elements (teleological ethics). However, logically the two remain separate.

At a definitional level, a teleological approach was adopted in Chapter Two. This was true for the definition of business ethics; it is also true of the definition of ‘codes of ethics’ presented in Chapter One. The focus of these definitions is upon a social evaluation of the moral consequences of acts. These definitions are thus silent upon the role of individual moral intentions or values. This begs the question: What are the social and psychological processes by which individual moral values are formed, and therefore deontology and teleology reconciled?

The purpose of this chapter is to advance our understanding of this issue by looking at several models of ethical decision making. What can these models tell us about the fusion of individual and society and of the moral consequences of acts for each in the decision making process? What variables influence ethical content in decision making, and how do they fit together?

This chapter examines the forces which shape an individual’s ethical beliefs and the ways in which one makes decisions involving ethical considerations. A number of models are investigated to establish an overview of current theory of the development of personal ethics; the ways in which people use ethics in the decision making process and how ethics are translated into the business environment.
It is argued that an individual’s ethics can be impacted upon at two levels. One is at the individual level and the other is at the corporate level. Individuals whilst working for the corporation are, one could assert, also working in their own self-interest. The individual impacts on the corporation and the corporation impacts on the individual.

Thus, individuals have come to the corporation from differing backgrounds and life experiences. Each one, according to Kohlberg et al., (1969), will have developed to different stages of moral development. If the contention is that codes of ethics can influence an individual’s behaviour, then it needs to be established that the theoretical models acknowledge that a code of ethics will be a determinant of a person’s ethical behaviour.

These codes of ethics are developed by corporations for the use of their employees. The use of a code of ethics implies that a corporation has tried to influence the ethical nature of the employees. Therefore, in this chapter we examine a number of models in order to determine that organisational, or corporate culture has some impact on the decision making process of the individual. The contention is that the corporation is also a determinant of the way that individuals make ethical decisions in their business life.

The models that are investigated in this chapter all support the contention that an individual’s decision making is impacted upon by the corporate culture to which they are exposed and this has ethical characteristics.

### 3.2 Kohlberg: His impact upon theories of moral development

Kohlberg is a prominent scholar in the subject of moral development of the individual. As Maclagan (1992:323) says,

> The inclusion of some reference to Lawrence Kohlberg’s (1969; 1973; 1981) work on individuals’ moral development has become de rigueur for those writing on this aspect of management and organisation development.

One needs to examine the work of Kohlberg et al., (1969) because it is used frequently by others as the basis for further research in this area.
Kohlberg’s interest in moral development stemmed from his interest in Piagetian theory. He pursued his interest in the moral development of individuals contending that, even though in Piagetian theory children developed to the stage of autonomous morality at the age of twelve or thirteen, they had further to go in order to reach the stage of moral maturity.

Kohlberg et al., (1969) developed a model of cognitive moral development which comprises six stages. The six stages are listed in detail in Appendix D. The model consists of three major levels with two stages within each level.

In the first level, or the Preconventional, the focus in Stage 1 is upon the child who works to avoid punishment or receive the hedonistic consequences of one’s actions. At this stage the child also respects physical power and those individuals who are in charge. In Stage 2 the individual progresses on to develop the desire to continue to satisfy one’s own needs and occasionally the needs of others.

At the second level, or the Conventional, the orientation in Stage 3 is towards good behaviour that pleases others and is approved by them. One gains approval by doing the ‘right’ thing as perceived by those in authority. In Stage 4 one develops into the law and order stage where one focuses upon the right of authority and rules. The desire is to maintain the social order.

In the final level, or the Post-Conventional, Autonomous, or Principled Level, one attempts to define moral values in a personal way that does not necessarily rely upon or take its guidance from others. A person in Stage 5 still considers a legalistic perspective, as in Stage 4, but now the possibility of ‘social utility’ is explored. By that one means, that the views of the society need to be considered, not just what is prescribed by law. In the final stage, or Stage 6, one seeks to define what is right according to one’s conscience and the pursuit of personally justified ethical principles. There is a desire to pursue the universal principles of justice, reciprocity, equality of all and the recognition of the worth and dignity of the individual.

Goolsby and Hunt (1992:56) sum up Kohlberg’s basic theory when they contend that Kohlberg’s work proposes the idea that,
Moral reasoning becomes cognitively more complex in each stage as individuals use increasingly elaborate algorithms for setting priorities and distributing justice.

The models that follow in this chapter all attempt to develop the idea of the ways in which individuals make decisions, in respect to ethics. Each model proposes a method of trying to attain ethical decision making. They all attempt to examine the constraints and circumstances that individuals face when confronted with an ethical dilemma.

### 3.3 Trevino: A Person-Situation Interactionist Model

The title of Trevino’s model implies that when individuals are making ethical decisions there is a definite interaction between the individual and the situation in which the person finds themself. Trevino has used Kohlberg’s theory as the basis of her model. Trevino (1986:601) says,

> A major component of the model is based upon Kohlberg’s cognitive moral development model which provides the construct definition, measurement tools, and theory base to guide future business ethics research.

The model is based upon three factors. These areas are cognitive moral development, individual moderators and situational moderators. The stage of cognitive moral development of the individual interacts with the other factors in the model to produce decisions which lead one to act either ethically or unethically in any given situation, depending upon the nature of the ethical dilemma.

Trevino (1986) contends that the situational moderators can change one’s stage of cognitive moral development. This Trevino believes can be done by placing individuals in the position where either the organisation’s culture, the immediate job context or the characteristics of the work can lead the individual to face ethical dilemmas which will challenge the individual’s current stage of cognitive moral development. The need to face these ethical dilemmas will mean that these moderators will have a positive impact on the individual’s stage of cognitive moral development.

Trevino (1986) sees the model having some practical implications which would enhance ethical decision making. She contends that an individual’s cognitive
moral development be used as a basis for manager selection. Individuals who are to be placed in situations that contain a substantial need for ethical decisions could be selected based on the level of development of their cognitive moral state.

Trevino’s (1986:603) model is outlined below.

Figure 3.1: A Person-Situation Interactionist Model

Trevino (1986) suggests that a combination of the cognitive and behavioural approaches should foster a heightened ethical awareness and should hopefully facilitate decisions of a higher ethical standard.

Trevino (1986) believes that her model provides a focus on the fact, that individuals often seek guidance from outside of themselves when confronted with an ethical dilemma. This point is significant in that, if individuals seek guidance from outside of themselves then to whom or to what will they turn?
That guidance, the writer suggests, should be provided by the organisation. The role therefore, of the individual’s organisation, is to foster an environment that facilitates ethical behaviour.

Trevino (1986:613) also mentions the use of codes of ethical conduct to enhance an employee’s ethical behaviour. Proposition 16, that she lists for further investigation, states that,

*Codes of ethics will affect ethical/unethical behavior significantly only if they are consistent with the organizational culture...*

It is this link which can be seen as being a critical element in this study. An ethics document by itself is not satisfactory. It should be linked with the organisational culture to obtain the maximum effect on employees. The concept of the link between codes, corporate culture and improving an employee’s ethical behaviour is discussed in Chapter 4.

### 3.4 Ferrell and Gresham: A Contingency Model of Ethical Decision Making in a Marketing Organization

The 1985 model proposed by Ferrell and Gresham (1985:89) and outlined on the next page attempts, as did Trevino’s model, to identify those factors that impact upon ethical decision making.

The model includes two areas of investigation that are important for future work in this thesis. The first area of interest is that of significant others. Ferrell and Gresham include, in this area of the model, two areas namely differential association and role-set configuration.

Within the area of differential association Ferrell and Gresham based their ideas upon the work of Sutherland and Cressey in 1970. Ferrell and Gresham (1985:90) have defined differential association as,

*ethical/unethical behavior is learned in the process of interacting with persons who are part of intimate personal groups or role sets.*

They incorporated this area into their model because of their belief that if one were to associate with those whom one perceives to be engaging in behaviour which could be unethical and one were provided with the opportunity to be
unethical oneself, then one would behave unethically. Ferrell and Gresham see this association and involvement as a major predictor of unethical behaviour.

Ferrell and Gresham (1985:91) use role-set theory and base it upon,

*... the complement of role relationships which focal persons have by virtue of their social status in an organization.*

Therefore, a direct impact can be made upon the individual by those individuals within an organisation who have social status and can impact upon others. This can include peers and one’s line supervisor.

**Figure 3.2: A Contingency Model of Ethical Decision Making in a Marketing Organization**

Whilst others are significant, the precondition of opportunity to be unethical must be present. One still needs to have the opportunity to engage in unethical behaviour in order to manifest such behaviour. Ferrell and Gresham (1985:92) used the study of Zey-Ferrell and Ferrell (1982) to suggest that,

_In this study, opportunity for unethical behavior was found to be a better predictor of behavior than personal or peer beliefs. Therefore, we can conclude that professional codes of ethics and corporate policy are moderating variables in controlling opportunity._

Ferrell and Gresham (1985) do not specifically elaborate in their article as to how a professional code of ethics or corporate policy are moderating variables that can control opportunity. From the ideas expressed in the article, the writer
believes that their contention is that having a code of ethics and a corporate ethical policy means that employees are given some guidance and some warning that certain acts would be deemed unacceptable by the corporation. Therefore, when the opportunity arises to indulge in some type of unethical behaviour the presence of either a code or a corporate policy will act as a brake on the actions of employees. If the employee was not exposed either to a code or a corporate policy then the guidance and warnings would not be in place when the individual faces the opportunity to be unethical: no one has flagged to the individual the potential dilemma with a potentially unethical act that is being contemplated, nor has the corporation acknowledged an interest in the principles of being ethical. Hence, the employee is left to one’s own devices without guidance and this can lead to one perpetrating behaviours that may not be acceptable. The writer suggests that this concept is embedded in Ferrell and Gresham’s (1985:93) hypothesis for further research which states,

*Corporate policy and codes of ethics that are enforced will produce the highest level of compliance to established ethical standards.*

The general intent of this thesis is interested in the relationships as espoused by Ferrell and Gresham (1985). The contention that opportunity is a critical predictor for unethical decision making is of interest. However, the belief that there is a link between codes of ethics, corporate policy and the ability to control opportunity is one that is of greater interest to this study because the need for a code of ethics as a mitigating factor is evident.

Laczniak and Murphy (1991), in relation to the Ferrell and Gresham (1985) model, contend that the Contingency Model makes a contribution, in that it highlights that one’s individual values are not the only reasons why one may act unethically. The influence of supervisors and peers upon the behaviour of the individual and the tendency to either act ethically or unethically is most important. This idea is of critical importance to the intent of this thesis and to this end, the ideas of opportunity and the influence of peers and supervisors are discussed extensively in Chapter 4.

### 3.5 Hunt and Vitell: General Theory of Marketing Ethics

The Hunt and Vitell (1986:5) model was established in an attempt to,
... explain the decision-making process for problem situations having ethical content.

The Hunt and Vitell (1986) approach has been labelled as the ‘rational man’ approach by Laczniaik and Murphy (1991). That approach is based upon the belief that an individual will focus upon any given ethical problem from the perspective of calculating the dimensions of the problem and working through a set of decision protocols that will maximise the outcomes available to the individual. One then decides upon the appropriate option by examining the relative merits of each course of action and evaluating them. Finally, one makes a decision based on one’s judgement of the situation that is being faced. However, that decision and the proposed ensuing course of action, that the individual had planned to take, may be impacted upon by situational constraints that may exist at the time. Hunt and Vitell (1986) list opportunity as a situational constraint.

Hunt and Vitell (1986) believe that when an individual is in the situation where intention, behaviour and ethical judgements are not aligned then the individual should have a sense of guilt. This situation can be counter productive to the individual and the organisation. Therefore, Hunt and Vitell suggest that their model can help with the intra-firm environment, in that managers can work with their staff to highlight ethical dilemmas, assess the ramifications of each course of action and aim to resolve the problem that is being faced.

The interest in this model is that Hunt and Vitell (1986) also highlight the role of opportunity in the decision making process. Linked with this idea of opportunity, is again the belief that organisational norms or, as previously referred to in this thesis, organisational culture, are a ‘significant determinant of ethical judgements’.

Hunt and Vitell (1986) use studies by Newstrom and Ruch (1975), Brenner and Molander (1977), Ferrell and Weaver (1978), Dubinsky, Berkowitz and Rudelius (1980), and finally, Bartels (1967) to build up evidence to support their contention of the importance of the role of the organisation in influencing the ethics of employees. It is this idea which is at the heart of this thesis.

This model (next page) just adds more weight to the belief that organisational culture and a code of ethics can work together to enhance the ability of employees to make ethical decisions.
Can Individuals Make Ethical Decisions in Business?

Figure 3.3: General Theory of Marketing Ethics
3.6 Ferrell, Gresham and Fraedrich: A Synthesis Integrated Model of Ethical Decision Making In Business

In 1989 Ferrell, Gresham and Fraedrich used previous models including those of Kohlberg and Kramer (1969), Hunt and Vitell (1986), and Ferrell and Gresham (1985) to synthesise a model of ethical decision making.

The model posits the idea that individuals recognise ethical issues that confront them in the business environment. Once, the individual is aware of a dilemma, the degree of concern is determined by one’s stage of cognitive moral development. If the dilemma is perceived as having ethical dimensions the individual will then make an evaluation from a moral perspective based upon the confluence of their deontological and teleological concerns. Once, this evaluation has been made the individual will determine the course of action to be taken. This action will either be ethical or unethical and will ultimately lead to consequences as a result of the action taken. The individual will assess the
behaviour from a consequences perspective and the resultant feelings will either lead to similar behaviour in the future or a modification of such behaviour. Influencing the pre-action stages are organisational culture, opportunity and individual moderators. Again, one can see that organisational culture, and opportunity are viewed as having an impact on ethical behaviour. This relationship appears to be a constant in all of the models which are examined.

Ferrell, Gresham and Fraedrich (1989) believe that the combination of these earlier models provides a more comprehensive model. Their model removes a lot of the duplication of other models and streamlines the analysis of the process of making ethical decisions. A major focus of the synthesis model is centred on the ways in which individuals recognise ethical dilemmas.

The writer was interested that some parts of the model appear to resemble Trevino’s (1986) ideas. These ideas are included without particular reference in the body of the paper to them. Of particular interest is the use of the Stages of Cognitive Moral Development which she alone has used in her model. The description of organisational culture (Ferrell et al., 1989:61) lists the exact 4 descriptors as those of Trevino’s (1986) paper. The conclusion that one can speculate upon is, that whilst these models draw upon each other, that independent researchers have discovered similar factors and relationships that influence the ethical decision making of individuals.

3.7 Bommer, Gratto, Gravander and Tuttle: A Behavioral Model of Ethical and Unethical Decision Making

In 1987 Bommer et al., (1987:265) postulated a model that focussed upon,

... factors which affect ethical and unethical behavior in organizations, including a decision-maker’s social, government and legal, work, professional and personal environments.

Their model uses the individual’s decision process as the central focal point of the model. Bommer et al., (1987) classify this central focal point as ‘a central processing unit’.
Can Individuals Make Ethical Decisions in Business?

The areas listed above all interrelate with a common focus. The behaviour that occurs is a direct function of the individual’s perception of the relevance of these issues in terms of the,

... loss and reward that influence the decision. The model also distinguishes between the degree of influence which the decision maker perceives the various factors to have and the influence they actually have.

(Bommer, 1987:267)

Figure 3.5: A Behavioral Model of Ethical and Unethical Decision Making

The authors of the model considered it to be only exploratory. The model, in itself, is all encompassing in respect to the myriad of influences that impact upon the individual decision maker when making decisions that may be classified as either ethical or unethical in a corporate environment. The factors listed in the model are a synthesis of the literature in the area.

The interest for this study in this model is in the area of work environment. Bommer et al., (1987) highlight two areas of distinct interest to this thesis. They contend that the three factors of corporate goals, stated policy and corporate culture strongly influence the decisions that a manager makes in respect to acting ethically or unethically. They suggest however, that the manager can be
confronted by conflicting messages from the three areas. The course of action that a manager decides to take, Bommer et al., (1987) suggest, depends upon which of the factors is most dominant in the work environment at the time that the decision would be made.

Bommer et al., (1987:271) also suggest that,

*There is considerable evidence to support the notion that a company’s stated policies do in fact foster and increase the frequency of ethical behaviour.*

The study by Hegarty and Sims (1979) is cited. In this study, Hegarty and Sims, using a ‘simulated decision-making exercise’, sent a letter, from a fictitious company president, to employees. The letter supported the employees behaving ethically and at the same time warned that unethical behaviour would lead to one’s dismissal. The results reported were that there was an increase in ethical behaviour. Hence, if a letter can have an impact, then one can justify the worth of a code of ethics and continuing discussion on the topic of ethics within the organisation.

This model and the discussion in the article by Bommer et al., (1987) highlight the importance of having all policies and initiatives within the organisation heading in the same direction and sending a constant message to all employees. A written document, such as a code, is also seen as important. This line of thought is pursued in the research phase of this thesis where the desire is to search for best practice in Australia in the area of business ethics. One of the aims of the research is to determine whether companies do have a unified company focus towards the pursuit of ethics in their business dealings.

**3.8 Fritzsche: A Model of Decision-Making Incorporating Ethical Values**

Fritzsche (1991) contends that the models of Ferrell and Gresham (1985), Hunt and Vitell (1986), and Trevino (1986) have made a significant contribution to the development of a framework for the understanding of ethical behaviour in business. Whilst acknowledging their contributions Fritzsche (1991:842) suggests that,
... there are two significant gaps in the current models. The decision-maker’s personal values are not recognised and the process by which one arrives at an actual decision needs to be explicitly addressed.

Fritzsche (1991:843) divides personal values into instrumental and terminal. He defines them as,

... terminal values “refer to beliefs or conceptions about ultimate goals or desirable end-states of existence” (e.g., a comfortable life - a prosperous life). Instrumental values “refer to beliefs or conceptions about desirable modes of behavior that are instrumental to the attainment of desirable end-states” (e.g., ambitious - hard-working, aspiring).

The means by which one arrives at the actual decision is deemed by Fritzsche to be one of a ‘phased heuristic decision process’. Fritzsche (1991) sees this process as a replacement for the ethical judgements-intentions section of the Hunt and Vitell (1986) model.

This phased heuristic decision process has two components which are a conjunctive rule and a linear compensatory heuristic.

The conjunctive rule determines a minimum acceptable point within each of the decision dimensions. That is to say the lowest level of acceptable behaviour within that decision dimension. Those decisions which survive the critical examination and rigour of phase one are then evaluated from the perspective of the overall value assigned to each alternative. According to Fritzsche (1991:849) this value in respect to each decision alternative is calculated by,

... multiplying the relative importance weight (w) of each dimension by the benefit (b) of the decision alternative for the dimension. The resulting products for the dimensions are then summed to arrive at the value of the decision alternative as shown below:

Decision alternatives which survive the first phase (conjunctive rule test) may then be subjected to a linear compensatory heuristic yielding the overall value of each alternative. The heuristic process proposed in our model assigns a relative importance weight (w) to each decision dimension. Each decision alternative is evaluated for the benefits (b) derived from the alternative for each decision dimension. The value of a decision alternative is then derived by multiplying the relative importance weight (w) of each dimension by the benefit (b) of the decision alternative for the dimension. The resulting products for the dimensions are then summed to
arrive at the value of the decision alternative as shown below:

\[ V_j = \sum_{i} w_i b_{ij} \]

where:
- \( V \) – the overall value of a decision alternative
- \( w \) – the importance weight assigned to a decision dimension
- \( b \) – the benefit assigned to a decision dimension for a decision alternative
- \( i \) – index indicating specific decision dimension
- \( j \) – index indicating specific decision alternative

Fritzsche’s model (1991:843) as outlined below, does build upon its predecessors and could be seen to expand the field of knowledge in this area.

The introduction into the theoretical framework of the phased heuristic decision making alternative does give recognition to the fact that when a manager makes decisions, then one would need to evaluate alternatives from the perspective of benefit to the organisation and its publics as a function of the weighted importance of the decision dimension. One could call it a prioritising of alternatives within any given decision dilemma. One could contend that on a daily basis managers need to always be weighing up alternative courses of action and making decisions based upon the significance of the advantages and
disadvantages to the organisation and its attendant publics. One can only hope that the ethical dimension of a decision would be seen as the major contributing factor rather than other weighted benefits in the mind of the decision maker which may lead to an unethical course of action.

Again, organisational culture is a major determinant of an individual’s behaviour. If decisions are made based upon weighted benefits in the mind of the individual then the organisation will need to ensure that it does its best to reinforce in the individual member that ethical decisions are expected. Organisational policy and reward structure play a role in framing the environment in which the individual comes to the decision making process. Hence, an organisation by espousing and pursuing ethical policies can set the environment and the context in which the decision should be made.

3.9 Strong and Meyer: An Integrative Descriptive Model of Ethical Decision Making

Strong and Meyer have developed a model in which they have attempted to align managerial decision making with the effect that it has upon corporate conduct.

As in other models espoused in this chapter, Strong and Meyer (1992:90) used Trevino’s (1986) model and the theory of Kohlberg et al., (1969) to construct their model.

Strong and Meyer (1992) suggested that managerial behaviour and decision making would have an impact upon the manager’s conduct of business from the perspective of social responsibility in the areas of: legal responsibility, ethical responsibility, economic responsibility and discretionary responsibility. They designed their research to test this link.

The research revolved around using a social responsibility measure developed by Aupperle et al., (1985) in their study and then attempting to correlate responses from the Rest Defining Issues Test.

In 1979 Rest developed a test called The Defining Issues Test (DIT). The test presents the individual with 6 hypothetical moral dilemmas and gives a list of considerations for determining the right course of action. The individuals, who take the test, rank the first four considerations of importance to them in each
scenario. The test is then able to produce a ‘P’ score, or a measure of the degree to which an individual selected the ‘principled’ considerations. Hence, people can be grouped as either more or less principled (Trevino, 1992).

The model is outlined below:

Figure 3.7: An Integrative Descriptive Model of Ethical Decision Making

The benefit of this measure, according to Strong and Meyer (1992), is that it forces individuals to make a choice between conflicting options. This choice approximates the real world of managerial decision making where managers must look at alternative ways of solving dilemmas. A manager in many cases will be confronted by the necessity to decide trade-offs between alternatives. The perfect solution is rarely found and so a compromise situation must be considered and actioned.

Strong and Meyer (1992:90) developed an hypothesis as follows:

*DIT scores will be positively correlated with perceptions of ethical responsibility and negatively correlated with perception of economic responsibility.*

The conclusion of Strong and Meyer (1992:92) was that,

*The results of the exploratory examination of the relationship between moral development and perceptions of ethical and economic responsibility show no strong or significant relationship between the ability to think*
critically about moral choices and the manager's perception of the ethical and economic responsibilities of the firm.

Strong and Meyer believe that their model requires further testing and refinement. One of their concluding remarks contended that the environmental restraints and one's internal rational restraints may have a greater impact upon the individual's decision making behaviour than the individual's reliance on moral judgement.

One can see from the Strong and Meyer model that environmental restraints comprise: competition, regulations, laws, economic conditions, social norms and industry structure. Internal rational restraints comprise: intelligence, biases of information, boundedness, belief persistence, experience and risk aversity.

The responses to their study suggest that individuals would be strongly impacted upon by the business environment in which they exist. (The nature and character of the industry in which they work and the culture of the company for whom they work will have a significant influence on decision making.) In order to make decisions in business, one uses one's rational skills and knowledge of the rules of the game particular to one's industry in order to be successful. This may, depending upon such factors as management policy and action, mean that one would subjugate one's internal moral self. In order to appease one's rational self- which requires one to fit into the culture of the company and the industry and to ensure that one's career proceeds with as little risk as is possible- one may make decisions based upon economic and business beliefs that may necessitate one modifying or even ignoring one's own moral philosophies.

A study by Fraedrich and Ferrell (1992a:250) examining cognitive consistency of marketing managers in ethical situations came up with the finding that,

*Only 15 percent of the respondents did not change moral philosophies between work and non-work situations. This may mean that people alter their moral philosophy or value structure to cope with ethical issues in the work environment. Respondents may have separated personal ethics from business ethics based on social and economic factors in the work environment. These factors may be opportunity, a manager's superior, increased pressure for monetary results, or significant others.*

One of the reasons listed was the influence of a manager's superior. This finding that only fifteen per cent of individuals maintained their ethical
Can Individuals Make Ethical Decisions in Business?

Consistency between work and private lives raises the need to examine the ways in which an individual employee may be impacted upon in respect to behaving ethically or unethically within an organisation. This in itself leads one to the need to consider the impact of organisational culture upon the individual. These issues are examined in more detail in Chapter 4.

3.10 Stead, Worrell and Stead: An Integrative Model for Understanding and Managing Ethical Behavior in Business Organizations

Stead, Worrell and Stead reviewed the literature and in 1990 proposed their model of ethical behaviour in organisations. The model takes individual factors and uses them as the starting point. Based upon these factors, individuals adopt an ethical philosophy and thus an ethical decision ideology. They then make an ethical decision from their perspective, which becomes part of their historical ethical decision making process. This ethical decision making history is influenced by the reinforcement, within the organisation, which is given to an individual’s past ethical decisions. One’s ethical decision history and organisational factors and external forces then combine in order to make and construct ethical behaviour within an organisation. The Stead et al., (1990:237) model is shown below.

Figure 3.8: An Integrative Model for Understanding and Managing Ethical Behavior in Business Organizations
Stead, Worrell and Stead’s (1990:238) conclusions and recommendations in respect to their model and research are that,

... *decision history and organizational factors have the most significant impacts on the ethical behavior of employees. Thus, managers do not have to rely on the integrity of the employee alone. They have the power to structure the organizational context to promote ethical behavior.*

It is this ‘power to structure the organizational context to promote ethical behavior’ which is one of the major research issues in this thesis. As an adjunct to this need to promote ethical behaviour, Stead et al., (1990:239) suggest that ‘the most visible sign of a company’s ethical philosophy’ is to develop a meaningful code of ethics. The link, within the models, i.e. between ethical behaviour and developing and using a code of ethics, is almost inescapable. Codes of ethics are seen as a visible manifestation of the desire of the organisation to be ethical.

### 3.11 Summary
The models considered in this chapter in most cases are influenced by either one or a number of previous theorists namely Kohlberg et al., (1969), Trevino (1986), Hunt and Vitell (1986), and Ferrell and Gresham (1985).

Each model examines the ways in which individuals attempt to make ethical decisions. They all recognise that the process is a synthesis of individual and situational factors that combine in different ways to produce decisions. Each individual comes to any decision situation as a unique being. The person cannot separate themselves from the past, the present, or the future in terms of the impact of the decision which may be made. Each individual perceives the issue, the constraining features of the external environment and the organisational forces that are involved from a unique perspective. Each person then makes a decision. The individual then feels the impact of that decision which may either reinforce the decision made, or may lead, in future situations, to a modification of the original behaviour. All of the models demonstrate that the circumstances in which one makes an ethical decision are complex and that more empirical testing needs to be done to determine the explanatory power of variables.

One problem inherent in all models of ethical decision making is whether or not the desired result for the organisation and the individual eventuates. One also needs to examine if the decision is seen to be ethical or unethical and as such, what are the consequences to the organisation and the individual decision maker.

Therefore, one could argue that if organisations and managers wish to encourage staff to make decisions from an ethical perspective, then the organisation must create the culture to facilitate such behaviour by employees. Chapter Four of the thesis addresses in more depth the issues of such organisational factors. The role of senior management and organisational culture and their impact on the ethics of the organisation are examined in detail with suggestions about their relation to the ethical stance of an organisation.

At the beginning of this chapter we referred to the need for models to provide a sociological reconciliation of the deontological and teleological elements of business ethics - the individual’s and the organisation’s utilitarian evaluation of actions.

The final model (Figure 3.8) was an integrative model of managerial ethical behaviour in decision making. The variables that compose it are neatly bifurcated between those which occur through socialisation of the individual
and those which stem from the organisational (social) normative context. Ethical behaviour is located too in intentions (which may express philosophy, personality and socialisation) and in actions assessed by their utilitarian consequences (sometimes as evidenced through ethical decision history).

At an empirical level such models can be operationalised to deploy a full gamut of variables capturing both the teleological and deontological aspects of business ethics.

Corporate culture is identified as pivotal in the fusion between the two aspects of ethics - an essential link between the moral guidelines of the individual and of the organisation. How does corporate culture specifically relate to business ethics?
Chapter 4

Ethics and the Organisation

4.1 Introduction

The models in Chapter Three, proposed by Trevino (1986), Ferrell and Gresham (1985), Hunt and Vitell (1986), Ferrell, Gresham and Fraedrich (1989), Bommer et al., (1987), Fritzsche (1991), Strong and Meyer (1992) and Stead et al., (1990), all incorporate the role of organisational culture, in some form, as a means of influencing the ethical behaviour of employees. The terminology used may not denote, ‘organisational culture’ exactly, but the meaning of the terms used is similar. Hence, an examination of ethical behaviour in organisations can only be done through an examination of the culture of organisations.

Laczniak (1983:26) listed fourteen propositions that he considered would assist managers to make ethical decisions. One of those propositions was that,

The moral tone of an organization is set by top management. Stated another way, the organization is but a lengthened shadow of the morality of persons in charge.

David (1988:144) develops this point from a different perspective when he quotes Drucker as follows:

For the spirit of an organization is created from the top. If an organization is great in spirit, it is because its top people are great. If it decays, it does so because the top rots; as the proverb has it, ‘Trees die from the top’.

This chapter focuses upon the role of management (especially senior management) in establishing the culture of an organisation and the resultant impact that these individuals can have upon ethics within the organisation. The discussion begins by examining the role of senior managers who set the strategic vision and the ethical tone of the organisation. This ethical tone and strategic vision combine to determine the organisational culture that exists within a company. Even though in the late 1980s and 1990s there has been a greater awareness generated through news media that individuals and organisations need to examine their ethics, individuals still indulge in practices that are ethically questionable and, in some cases, illegal. The chapter then examines the reasons for unethical and ethical behaviour in organisations. This
chapter also looks at ten methods that may assist in building an ethical organisational culture. The final section of this chapter examines Robin and Reidenbach's (1987) model that looks at integrating ethical decision making into the strategic planning process.

4.2 The Role of Senior Managers

Baumhart (1961) in his work found that a number of the executives whom he surveyed suggested that their personal ethical conflicts were tested most when 'pressure' had been applied from a superior to act in a certain manner.

The use of Baumhart's language here is of interest. He uses the word 'pressure' to convey the degree of coercion of these individuals by their superiors. The semantic connotations of 'pressure' are softer than those of 'coercion', reflecting a degree of tolerance of this type of activity in the 1960s. In fact, in his summation of this section, Baumhart (1961:166) says,

*A good boss ought to have the ability to “stretch” his men. But it is important that he not “overstretch” them, physically, psychologically, or ethically.*

The use of the vocabulary tends again, in this situation, to soften the impact of the dilemma. Whilst Baumhart does suggest that the practice is not correct he uses the word, 'overstretch' which again tends to lessen the infraction by the superior upon the subordinate and may reflect the degree of tolerance of this infraction by the researcher and the managers of his day.

The impact of superiors upon subordinates was also found by Brenner and Molander (1977:60) in their replication study of Baumhart's work. They concluded that,

*We feel it particularly noteworthy that relations with superiors are the primary category of ethical conflict. Respondents frequently complained of superiors’ pressure to support incorrect viewpoints, sign false documents, overlook superiors’ wrongdoing, and do business with superiors’ friends.*

Brenner and Molander highlighted that it was the major problem in superior/subordinate relationships in respect to ethics in the organisation.
Lincoln, Pressley and Little (1982) suggested that when unethical behaviour is observed to have been perpetrated by company executives then this behaviour has a ‘multistage socialisation effect’. This socialisation effect relates to the impact that the behaviour has on other members of the organisation. Emerging executives within the organisation witness and experience this behaviour and it influences them, as it does others employed by the organisation. Another effect is that such behaviour flows into the market place, where it impacts upon those individuals and organisations who engage in business dealings with such unethical individuals or organisations.

Posner and Schmidt (1987) conducted a study into ethics in American companies from the perspective of managers. They were convinced that executives make decisions based obviously upon their own ethical value systems and hence that the corporation’s policies and practices determine the degree to which the corporation is socially responsible. Hence, if these individuals are to set policy and guide the actions of employees then one will need to know more about their ethics.

One of the areas of focus of the Posner and Schmidt (1987:384) study was in the individual manager’s perception of the ethical nature of his company. They found a positive correlation between the perception of an ethical organisation and one’s position within that company:

In fact, supervisory managers were more than twice as likely as executives to say their organizations were not guided by highly ethical standards ... Nearly 40 percent say that superiors have asked them to do something they consider unethical (Ricklefs, 1983).

This dichotomy of perception between managers and their subordinates really should not surprise one, as one constantly hears anecdotal evidence of individuals bemoaning that the managers do not practise what they preach. One of the other interesting findings in Posner and Schmidt’s study was that, as one works in an organisation for any length of time and progresses through the hierarchy of the organisation, one begins either to accept the mores of the organisation or one terminates one’s employment or has it terminated. As a result of the investment of time in an organisation, one develops an ownership and loyalty to that organisation that impacts upon one’s ability to perceive the organisation objectively. If one is to be able to make decisions objectively based upon an ethical perspective, one will need to appreciate the myriad of factors that would influence one’s ability to behave in an ethical manner.
Stead, Worrell and Stead (1990) developed a model for ethical behaviour in organisations entitled, ‘An Integrative Model for Understanding and Managing Ethical Behavior in Business Organizations’ which was discussed in the previous chapter. The area of specific interest within the model re this point of discussion is that labelled ‘Organizational Factors’. This area contains four interrelated areas that impact upon one’s pursuit of ethical behaviour within the organisation. The managerial philosophy sets the context for decisions, whilst one can observe, the reinforcement system that is in existence when people behave in certain ways. The reinforcement system needs to be followed as stated. Otherwise employees will become cynical of it if they see that one is rewarded for infractions.

An example of this situation would be if the company staff were offered a reward for a particular volume of trade and the person who has achieved the highest figures would be rewarded with the prize, even though individuals within the organisation know that the individual concerned has persistently flouted the supposed company conventions and rules. The message communicated is to confirm and reinforce the negative behaviour that produces the results. This reward in turn has a negative effect upon future employee acceptance of company platitudes. The company has espoused one view and tacitly rewarded the opposite view. This situation also covers the area of the model that is concerned with managerial behaviour. As Stead et al., (1990:235) contend,

... research over a period of more than twenty-five years clearly supports the conclusion that the ethical philosophies of management have a major impact on the ethical behavior of employees (Arlow and Ulrich, 1980; Baumhart, 1961; Brenner and Molander, 1977; Carroll, 1978; Hegarty and Sims, 1978, 1979; Posner and Schmidt, 1984; Touche Ross, 1988; Vitell and Festervand, 1987; Worrell et al., 1985).

The study by Fraedrich and Ferrell (1992a) and discussed in the section devoted to Strong and Meyer’s model, which examined cognitive consistency of marketing managers in ethical situations, supports Stead’s conjecture.

4.3 Organisational Culture and Employee Decisions
The next 3 sections of this chapter look at organisational culture from different perspectives. This section aims to demonstrate that culture within organisations is critical in setting the environment in which employees make decisions. Organisational culture has been seen as being of paramount importance to the corporation. Serpa (1985:426) contends that it can be called,

“the social glue holding a company together”. This “social glue” has evolved over time and been shaped by internal as well as external factors ... each culture is a product of its unique values, beliefs and rules of behavior.

Fraedrich (1992) also highlights corporate culture as containing shared values and beliefs which will determine the behaviour not only of the organisation but also of the employees. He adds one further dimension to the debate when he says that the way that individuals need to behave in order to be successful within the organisation will be determined by the informal organisation and the culture that it creates.

The new dimension mentioned is that of ‘success’. The individual, in order to achieve within the organisation, must conform to the beliefs of the organisation and its culture in order to progress. As one’s future will be bound up with one’s adherence to corporate culture, one can see the all pervasive power and control that the culture may have over the individual employee. Therefore, as Knouse and Giacalone (1992:371) say,

At the organizational level, corporate culture provides individuals with an organizational reality within which morally relevant actions are discussed, judged, and sanctioned.

It is this organisational reality which will impact upon the decision making perspective of the individual employees. The culture of the organisation and its influence upon organisational members is such that the organisational members either consciously or subconsciously internalise the corporate beliefs and values and these become congruent with one’s own personal beliefs and values (Stoner, 1989).

Trevino (1986) in her work, discussed in the previous chapter, posited the theory of ‘A Person-Situation Interactionist Model’. As discussed, she was interested in the ways in which managers made ethical decisions in organisations and in being able to predict such decisions. Her model conceived organisational culture as a major determinant within the process.
Trevino (1986:612) listed four characteristics in the area of organisational culture. These characteristics were:

1. Normative structure: the collective norms that guide behavior;
2. Referent others: people with whom we interact and refer in our work environment;
3. Obedience to authority: one’s need within the organization to comply with the orders of others;
4. Responsibility for consequences: focusses upon the awareness of the consequences of one’s actions and the acceptance of the effects of such actions.

Consequently, the impact upon the individual of organisational culture is a complex matter. Obedience to authority is a powerful motive for the actions of individuals. Trevino cited the Milgram type obedience studies in order to illustrate this point: individuals were instructed to administer electric shocks to others in an experiment involving learning. The subjects continued to administer the shocks, to the hired actors involved, even though they could see the discomfort on the part of the victims and also without regard to their discomfort that they felt with what they were doing. The majority of subjects obeyed the authority of the experimenter.

Tentatively, this research could be seen to have potential implications for employees in organisations. This concept of obedience to authority can often be seen to be more pervasive in organisational cultures where one has subsumed the ideals and beliefs of the organisation and accepted the power inherent in the authority figures within one’s organisation. Hence, senior managers can control the behaviour of employees by the virtue of their status and through the use of legitimate power and our respect for authority. Thus, senior managers could be seen to have a significant impact upon the ethics of subordinates.

4.4 Organisational Culture and Unethical Behaviour in Organisations

This section of the thesis is focussed upon the reasons why, in some organisations, unethical behaviour still occurs, even though one would think that the public spotlight on the topic may make individuals steer away from an unethical course of action. The discussion leads to the examination of the Reidenbach and Robin (1991) model which proposes stages of Corporate Moral Development through which organisations can progress on the way to
becoming ethical entities. This model is used in the research phase of this study in order to make an assessment of the current stage of corporate moral development of those organisations surveyed within Australia.

Gellerman (1989:74) believes that there are three major conditions that may induce the individual to act unethically:

- unusually high rewards for good performance;
- unusually severe punishments for poor performance; and
- implicit sanctioning of explicitly forbidden acts.

Gellerman contends that unusually high rewards may not necessarily promote high performance and that often the rewards signal to the employee the need to achieve at all costs. Conversely, if one is not successful then one will lose one's job. There may be instances within an organisation in which certain acts, that would be publicly rebuked, may be tacitly condoned. Employees may even be rewarded for them.

Collins (1990) examines three types of reasons why managers may act unethically. His reasons are that employees may behave unethically because it is either in the company’s or their own best interest, or they may be totally unaware that they are acting unethically. These reasons are linked with Gellerman’s (1989) view that performance may be judged by the outcome for the individual or the company, without consideration of the act itself and its consequences. This type of approach is really a Machiavellian one in which the end justifies the means.

Johnson (1981) believes that the corporate executive is inextricably linked with both the decision and the direct impact of that decision. Johnson expounds his contention that the corporation encourages one to lower one’s moral stance in certain instances for the good of the organisation.

The reasons for this ‘disassociation from responsibility’, as Johnson calls it, centres upon three precepts. The first of these is that top management could genuinely contend that they were not aware of all of the facts of a particular situation. The reason is because they receive reports that have been filtered by lower levels of management of the organisation, who have been facing the rigours of business every day at a level of interaction with the business environment. Fraedrich
(1992:13) believes that every day business competition does play a major role in establishing the environment which may lead to unethical practices. He says,

... when competition becomes so intense that business survival is threatened, then those within a company may begin to see once unacceptable alternatives as acceptable. This can cause employees to engage in unethical practices in order to save the company.

Secondly, the corporate culture concept is based upon being a team player and demonstrating one’s loyalty to the organisation. The actual act of ‘whistle-blowing’ in itself is seen as an abrogation of the team concept by many organisations.

The last reason proffered by Johnson is based upon the confluence of personal motivation and organisational goals. The employee needs to ensure the success of the organisation in order to progress through the organisation.

Baucas and Near (1991) conducted a study of illegal corporate behaviour of American companies in the years 1974-1983. (The writer does concede that illegal behaviour is not necessarily the same as unethical behaviour.) They focussed upon the Fortune 500 companies and the convictions of these organisations during the period under review. They found that there were nearly 90 firms that had committed over 140 violations. The disturbing factor was that some firms had committed more than one violation and had been caught and prosecuted again. Baucas and Near, in examining the possible reasons for illegal corporate behaviour, focussed upon opportunity and predisposition.

Opportunity was seen in the form of the inability of the company procedures to keep abreast of company growth. Therefore, internal rules may not have prevented such behaviour. Another facet of opportunity was in terms of executives attempting to maximise the company’s position without considering the ramifications of their actions.

Predisposition refers to the individual’s predisposition to choose certain illegal activities because of socialisation or other organisational processes. This reflects back on the corporation’s culture. Baucas and Near (1991) believe that some corporations possess a culture that leads their members to behave in ways that are illegal. Repeated violations by some organisations suggest that illegal behaviour may be endemic in these organisations.
Fraedrich (1992) supports this idea in respect to the impact of the organisation upon the individual. He cites three facets that he suggests are important in determining the ethical stance of the individual within the corporation. These facets are corporate culture, a person’s superiors, and opportunity.

It would appear that there is a wide diversity amongst corporations as to the way that they promote and adhere to the pursuit of ethical behaviour.

Reidenbach and Robin (1991:273) have established a conceptual model of corporate moral development which examines the evolution of moral development within an organisation. They believe that,

*The moral development of a corporation is determined by the organization’s culture and, in reciprocal fashion, helps define that culture. In essence, it is the organization’s culture that undergoes moral development.*

Figure 4.1: A Conceptual Model of Corporate Moral Development

Reidenbach and Robin (1991:274) five stage model is based upon the following eight propositions:

1. Not all organizations pass through all stages of moral development.
2. An organization can begin its life in any stage of moral development.
3. Most organizations in stage one do not leave stage one.
4. An organization comprised of multiple departments, divisions, or SBU's can occupy different stages of moral development at the same time.
5. Corporate moral development does not have to be a continuous process. Individual corporations can skip stages.
6. Organizations at one stage of moral development can regress to lower stages.
7. There is no time dimension associated to the moral development of organizations.
8. Two organizations can be in the same stage but one may be more advanced.

These propositions highlight that the development of this corporate morality is neither necessarily a linear progression from lower forms to higher ones, nor is one guaranteed of retaining one's higher level.

The model of corporate moral development is premised upon the degree to which organisations balance a concern for profits and ethics. Each stage is characterised by particular behaviour patterns and approaches to situations. A summary of these visible manifestations is contained in Appendix E.

For simplicity, in this section of the thesis we shall concentrate upon the way that corporate culture is perceived in these five stages and the impact that each stage has upon the organisation's code of ethics.

The five stages are:

1. **Amoral**: a belief in a valueless business environment; no set code or recognition of the need for one

2. **Legalistic**: follow the law for best results re profit; the code is an internally focussed document

3. **Responsive**: contain values other than productivity and a sense of legality; codes are of greater importance and they reflect a greater societal orientation

4. **Emergent Ethical**: company adopts a visible responsible citizen approach; code becomes externally oriented and a living document

5. **Ethical**: a common set of ethical values permeate the entire company;
codes are one of many measures used; all the corporate documents reflect the ethics of the company.

Of the five stages, and the evolution of companies into them, Reidenbach and Robin (1991:283) believe that within the US business environment that,

*It is our opinion that most organizations are currently in the legalistic and responsive stages of moral development. More and more organizations, however, are beginning to manifest the characteristics of stage four organizations.*

This model gives one some guidelines to follow in examining the actions of an organisation in respect to its ethical stance. The link between management attitude and approach, ethical aspects of corporate culture and corporate ethics artefacts in the forms of codes of ethics and other manifestations complement the focus of this research study. It would appear that all of these areas are inextricably linked. Each one affects the other. Managers construct and influence the corporate culture and the organisational perception of ethics derives as a direct result of the integration and synergistic effect of the other two areas.

This thesis has consistently maintained that ethical practices should be pursued by organisations not only for the good of the organisation but because of the direct and positive impacts that such behaviour will have upon the employees of the organisation and its attendant publics. The next section of this thesis therefore examines from the literature and research the means by which one can foster an ethical climate within an organisation and how it can lead to ethical behaviour by the employees of the organisation.

### 4.5 Establishing an Ethical Culture

Having investigated in the preceding sections the power of organisational culture, the reasons for acting unethically by individuals within organisations and the stages of Corporate Moral Development, this section examines the ideas of a number of writers who ask how to foster an ethical culture in organisations in order to promote ethical decision making. This section is important to the study because a number of the ideas mentioned are investigated in the research phase of this study. It should be noted that most writing on this topic is normative. Nevertheless, it retains some analytical value.
Many of the methods suggested are common amongst a number of writers. Sims (1991) suggested that one can promote the institutionalisation of ethics through considering ten major ideas. These ten suggested ideas are used as the basis for this section of the thesis. Sims’ ideas are supplemented, where relevant, with the ideas of other writers.

1. **Use the employment process to prevent people prone to being unethical enter the company in the first place.**

This first condition is a difficult one to apply. It is not easy during the interview process to focus on the interviewee’s ‘true’ ethical standpoints, bearing in mind that individuals during an interview may not present a true picture of themselves. They may attempt to project their perception of the type of individual that they perceive that the company requires.

Fraedrich (1992) suggests that organisations can at the pre-hire stage incorporate an ethics test and/or the use of a cultural acceptability test which focuses on the congruency between the prospective employee’s value system and that of the organisation.

McDonald and Zepp (1990) also believe that it is essential to employ ethical staff. They contend that it is easier to hire people with well developed sets of ethics than attempting to mould them after the event. They advocate the comprehensive checking of the opinions of referees and previous job supervisors with specific reference to the candidate’s exhibited ethical behaviour.

The contention of the writers in this area is that the organisation will benefit immeasurably if it has the ability and capacity to only hire those individuals who will have ethical standpoints that are congruent with the organisation. The point of contention is whether or not one can actually determine the individual’s ethical beliefs and the reliability of such a measure.

Kohlberg and Kramer (1969:94) found that,

... there was no further age increase in moral maturity after age 25, and that high school scores on moral judgement maturity were highly predictive of adult scores on moral maturity.
The fact that one’s moral maturity appears to be fixed by the age of 25 years is of interest. The implications for the individual and the organisation for which one works are that one can be assured that most people will not change dramatically after this age. The concern then is to administer a test that will reliably indicate the person’s ethical beliefs or their stage of cognitive moral development.

As stated in Chapter 3, in 1979, Rest developed a test called The Defining Issues Test (DIT). This test, by the nature of asking managers to make discriminatory judgements on managerial problems, gives one a reliable insight into the manager’s ethical perspective. Trevino (1992) contends that the DIT test does give organisations some means by which to measure applicants for positions within the company.

2. Make public statements that ethical behavior is important and ensure that the chief executive promotes ethical consciousness in the organization.

Sims (1991) believes that the support of the top management is critical to the success of the ethical objectives. Laczniak and Murphy (1991) agree that the organisation’s ‘ethical tone’ is a result of the ways that senior managers communicate to employees their conviction that everyone needs to be ethical.

Serpa (1985), Stoner (1989) and Gellerman (1989) support this view. Gellerman adds that it is not only a matter of supporting the need to be ethical, but it requires as well tangible proof of the sincerity of managers: they should provide conditions that ensure ethical behaviour by employees.

The role of management is a powerful force in the process of establishing an ethical organisation. In order to ensure the credibility of the push for ethical behaviour, management must be perceived to be both publicly and privately supporting an organisation’s ethical standards.

3. Develop organizational policies that specify ethical objectives and formal procedures for addressing unethical behavior.

Hegarty and Sims (1979:337) found that,
... a clear organizational policy had a deterring influence on unethical behavior.

Gellerman (1989) believes that an organisation that establishes a code of ethics should support this process by incorporating within it the provision for disclosure mechanisms within the organisation.

Stoner (1989) supports this view. His concept involves putting ‘checks and balances’ into the organisation to ensure a consistency of management practices.

Employees within an organisation should be able to feel confident in the ability to notify the organisation of potential ethical breaches of company policy. Gellerman also recognises that this process could be fraught with potential danger in that unsubstantiated accusations might adversely affect the innocent individual in the organisation.

In the United States of America, NASA has implemented a disclosure mechanism in respect to those safety violations about which the employee considers that insufficient action may have been taken. NASA employees can inform an outside agency of the alleged violation (Gellerman, 1989).

This is an interesting concept of vesting authority in an outside organisation to act as a watchdog for the corporation. One could see this procedure not being followed by companies who could see it as an abrogation of their corporate responsibilities and perhaps a perceived invasion of corporate privacy. In practice these corporate watchdogs do exist to monitor cases of illegal behaviours.

In Australia there are a number of bodies that are performing these functions and they include: the Australian Competition and Consumer Commission, the Environmental Protection Agency and the Ombudsman. These agencies are able to resolve issues that are governed by the laws of the land. The difficulty in the field of ethics is that one is not necessarily behaving illegally if one were acting unethically. The other great dilemma in this debate would be in just establishing a working and pragmatic definition of what is considered ‘unethical’ from which a base could be established as a reference point for further action. The difficulty of doing this would make the situation untenable on a general societal basis.
Within the organisation, employees should have the ability to be able to speak freely about matters of ethical concern to them with impunity from corporate retribution.

4. Develop a code of ethics ... that describes the general value system of the organization, defines the organization's purpose and provides guidelines for decision making with these objectives.

This belief that a code of ethics should exist as a means of enhancing the ethical environment of an organisation is supported by a wide range of writers, (Stoner, 1989), (Gellerman, 1989), (Axline, 1990), (Harrington, 1991), (Laczniak and Murphy, 1991) and (Fraedrich, 1992). The inherent benefits of codes of ethics were discussed extensively in Chapter 1.

5. Develop a Corporate Ethics Committee.

Weber (1981) advocates that an ethics committee is essential for the organisation. He believes that it should focus its attention upon those issues which are embodied in the organisation’s code of ethics.

Weber (1981:50) lists eight primary functions of the committee as being to:

- attend meetings to discuss ethical issues, probably semiannually;
- clarify the grey areas of ethics as stipulated in the code;
- communicate the code to all corporate managers and employees;
- investigate possible violations;
- enforce the code through sanctions;
- reward or discipline code compliers or violators;
- review and revise the code based on annual corporate review by management and on the changing business climate;
- and report to the board of directors on all committee actions.

Murphy (1988), the Center for Business Ethics (1986) and McDonald and Zepp (1989) all advocate the use of ethics committees.

A concept invariably linked with the ethics committee is that of the organisation having an ethical ombudsman to oversee the ethical functioning of the organisation (McDonald et al., 1989).

This office of the ombudsman gives the organisation the ability to have its corporate conscience examined and policed to ensure that individuals conform
to the stated policies of the organisation. The major thrust of the committee and the ombudsman is to act as a guide and a monitor of company performance in order to ensure compliance with company policy and objectives. Both areas use the corporate code of ethics as the frame of reference within which they act. The role of the code of ethics is critical in setting standards and benchmarks and for providing guidance within the organisation.

6. **Maintain an ethical organizational culture. Provide rewards for ethical behavior and avoid providing rewards for unethical behavior.**

7. **Punish unethical behavior and avoid punishing ethical behavior.**

One could contend that these concepts six and seven are linked therefore, both concepts will be considered together as they focus upon reward and punishment for behaviour in respect to the organisation’s ethical policies.

Jansen and Von Glinow (1985:820) examined the reward systems that organisations put in place and how these systems can contribute to ethical ambivalence within the organisation. They believe that organisations need to, ...

... *locate the aspect of a reward system that fails to signal the importance of dominant norms and allows counter-norm-driven behavior to be rewarded.*

Sims (1991) focuses in this area upon the Law of Effect which centres upon the belief that those actions and behaviours that are rewarded will be repeated and that those actions which are not rewarded or even punished are usually not repeated. The organisation needs to address unethical behaviour. By having in place measures for not rewarding and or punishing unethical behaviour the effect should be to reinforce desired ethical behaviour.

Fraedrich (1992) also comments upon this when he suggests that an organisation should conduct a periodic review of enforcement procedures.

The organisation needs to isolate those behaviours within the reward system which would be directly contrary to the ethical philosophy that the organisation is trying to promote within the organisation. One needs to promote positive ethical behaviour and attempt to discourage negative ethical behaviour. As Stoner (1989:42) says,

... *organization members must believe that it is in their self-interest to accept and adhere to the organizationally - prescribed moral values. This*
condition occurs only when the organizational reward and disciplinary system clearly reinforces the desired moral values.

8. When placing members in competitive situations, be sensitive to the potential for unethical behavior and take the steps to avoid it.

Individuals, when placed in competitive situations, may be tempted to consider practices that may not necessarily be of long term ethical benefit to either themselves or the organisation. Their own performance and that of the organisation may be the end that justifies the means.

The Center for Business Ethics (1986:88) conducted a survey in 1984 of the Fortune 1000 industrial and service companies and one of the issues examined was that of social audits. They found that 43 per cent of the companies which had a commitment to ethics were performing social audits centred upon their organisation’s activities in a number of ethical and socially sensitive areas. The three major reasons for conducting such an audit were listed as:

- to increase accountability,
- to provide information for management decisions and to shape company policy.

Ethical audits were also suggested by Murphy (1988) in his article, ‘Implementing Business Ethics’, and this idea has been raised again by Laczniak and Murphy (1991). The contention is that organisations need to monitor the ethical performance of their employees to ensure that they are taking the organisation’s ethics policy seriously. They suggest that organisations should develop systematic procedures to test employee commitment to organisational ethics. Fraedrich (1992) has also suggested that organisations conduct periodic ethical reviews of key personnel.

One could assume, although it is not stated within the article by Fraedrich (1992), that there is a need for a review of key personnel because these individuals shape the organisation and set the direction that it follows. One therefore needs to ensure the integrity and the commitment of these individuals to the corporate ethical philosophy, in order to have an organisation that will pursue ethical practices.

Harrington (1991), in common with Fraedrich’s (1992) idea, suggests that ethical decision making should become part of the performance appraisal of
Ethics and the Organisation

individuals. This idea is a commendable one in that it integrates ethics into one’s perceived organisational performance: it is another way of rewarding the ethical individual and discouraging the unethical individual. The concern is with the way in which this would be implemented and its probable vagaries and abuses. Like all performance appraisals that are not necessarily based upon quantifiable data, the subjective opinion of the line manager could be imposed upon the individual subordinate. Consequently, the organisation is placing a lot of trust and faith in line supervisors. Therefore, this process would need to be scrutinised in great detail before its introduction and would need to be monitored once it has been introduced.

9. Develop a systematic training program (with input from employees at all levels of the organization) for all employees.

In order to raise the ethical awareness and performance of the individual employees, as with all skills, the organisation needs to address them by utilising a formal training procedure and programme.

A number of writers have advocated the use of training programmes as a means of institutionalising ethics within the organisation, (Weber, 1981), (Browning and Zabriskie, 1983), (Center for Business Ethics, 1986), (Murphy, 1988), (McDonald and Zepp, 1989), (Axline, 1990), (McDonald and Zepp, 1990), (Harrington, 1991), (Laczniak and Murphy, 1991), (Maclagan, 1992), (Dean, 1992) and (Sims, 1992). These training programmes range from one seminar to be attended every several years as suggested by Laczniak and Murphy, (1991) through to the idea of Harrington (1991:29) that organisations should,

orient ethics training toward strategic issues ... Thus ethics training is really part of a larger, organized effort to integrate ethics into the culture and long-range strategic efforts of the firm.

This concept of linking ethics and strategic thinking is considered in the latter part of this chapter with an examination of the proposition of Robin and Reidenbach (1987) concerning incorporating ethics into the strategic marketing planning process of the organisation.

10. Group decision making generally results in higher levels of moral reasoning.
Fraedrich (1992) believes that an organisation should develop focus groups that would endeavour to identify those potential ethical problems that may confront employees. Fraedrich suggests that this identification process should be followed by a process that establishes ways of dealing with these problems.

This belief in the benefit of synergy in group decision making is shared by McDonald and Zepp (1990:11) who suggest that,

*Groups of individuals sometimes produce decisions with a higher moral content than when those individuals act alone. This may be because ethical issues are more thoroughly explored when they are openly discussed in a group than in the solitude of an individual’s mind. But a note of warning; in highly cohesive groups, the opposite appears to be true.*

This belief in the benefit of collective moral reasoning is based on the premise that a decision will be enhanced with more input from a wider range of individuals. The issues will be examined from different perspectives and the group will arrive at a more balanced decision. However, highly cohesive groups can suffer from the phenomenon of ‘groupthink’. In these circumstances, the group, because of its internal mores of self-protection, can become too subjective about issues. The dilemma is to know and to recognise this phenomenon when it occurs.

The basic point which recommends the value of collective decision making appears to be valid. When brainstorming about ideas, the collective power of a group discussing the issue will, because of the nature of input from many individuals, invariably generate a greater range of options than individuals working upon the problem in isolation. Different viewpoints confront the beliefs of others in the group and challenge the group to make a consensual decision which will benefit all parties. Another benefit of group decisions is that a range of individuals owns the decision. People are not able to dismiss the idea as an imposition of management upon them. One would hope that this process of owning the idea would lead to a greater commitment towards the goal of achieving the desired outcomes for the organisation.

The ideas and measures promulgated by Sims, and elaborated upon by other writers, highlight that inculcating ethics within an organisation is not an easy task to implement. A range of measures and strategies must be carefully considered and crafted in order to achieve the reality of an ethical organisation,
working in ways that would be acceptable to the organisation and its stakeholders.

4.6 Ethics and Strategic Planning

This section examines the work of Robin and Reidenbach (1987) who take the discussion into a new dimension. They advocate that an organisation, committed to ethics, should inculcate those espoused company values into the strategic planning process.

Robin and Reidenbach, (1987) suggested a method for closing the gap that they perceived existed between concept and practice in the area of ethics and corporate planning. They focussed their attention upon strategic marketing planning but the principles that they proposed can be adapted to all forms of strategic planning in all organisations.

Robin and Reidenbach (1987:52) proposed a model of strategic marketing planning that attempted to marry the principle of ethical standards for the organisation with the processes involved in strategic marketing planning. The model shows the linkages between the two concepts of strategic planning and ethics.

Figure 4.2: Parallel Planning Systems for Integrating Ethical and Socially Responsible Plans into Strategic Marketing Planning
The ethical principles of the organisation guide and oversee the planning function within the organisation. Each process is not done in isolation or a vacuum, but integrated in order to engender a strategy that incorporates the ethical standpoint of the organisation. At each stage of the planning process it addresses the impact of the organisation’s ethical values upon the direction of the organisation in the pursuit of its corporate goals. The desire is to ensure that an organisation would be consistent in practice as well as in philosophy and that the company’s actions in the market place would be congruent with its perceived core values. The impact upon the consumer and the society are intended to maximise the company’s commitment to ethical business practices.

Robin and Reidenbach (1987:56) believe that,

*What we ask for is more than a few stopgap rules or codes of ethics that basically tend to operate as constraints. Instead, we propose a positive, proactive approach to marketing ethics and social responsibility based on careful analysis of the important potential impacts.*
This is a commendable attempt to integrate the concepts of ethics and strategic planning. It is in the strategic planning stage that the direction of the organisation should be set and the parameters of corporate action should be devised. By integrating ethics and strategic planning it will ensure that more than lip service is being paid to ethics. Furthermore, the code of ethics becomes an effective instrument and not just a symbol to appease the organisation and its stakeholders.

4.7 Summary

This chapter began by asking how corporate culture shapes business ethics. It then focussed on the role of senior management in setting an ethical climate through:

- Determining strategic goals (which have an ethical message)
- Setting an example through their own responses to situations requiring ethical choice.

The chapter then looked at several aspects of organisational culture. First, it cited sources that reinforce the view that organisational culture influences employee decisions and behaviour, focussing especially on tendencies to obedience. Second, it looked at organisational culture and unethical behaviour, and especially the reasons for frequent unethical behaviour arising from lack of ethical direction or strong implicit rewards for unethical acts. Third, the chapter looked at the stimuli for an ethical organisational culture - hiring practices, publicity, explicitly ethical organisational policies, a code of ethics, a corporate ethics committee, rewards, punishments, monitoring those at risk, training, and group decision making. Finally, the chapter looked at Robin and Reidenbach’s model to integrate ethical values into strategic planning - an unconventional feedback loop.

It is appropriate at this stage to summarise the theoretical position developed in Chapters 2, 3 and 4 in response to the question: ‘Can businesses adopt codes of ethics in a meaningful way?’ These chapters have established the following points:

1. Ethics (and business ethics) divide theoretically into deontological and teleological schools of thought.
2. Logical reconciliation of the two is difficult, good being either individual/institutional or social/utilitarian. Our preferred definition is teleological but we invite sociological reconciliation or integration of the moral beliefs of the individual.

3. We reject the reductionist view that businesses are profit makers not ethical actors and note the contingent possibility that ethical behaviour may be profitable.

4. Models of ethical decision making can be easily constructed to permit empirical verification of multiple variables spanning both deontological and teleological approaches to business ethics. These models tend to emphasise both individual moral learning and the importance of culture in setting an ethical code.

5. Corporate culture is a dominant factor in implementing moral content into managerial decisions and this can be: (a) shaped by senior managers, and (b) that corporate culture may be an ethical culture expressed in instruments such as codes.

Having established the possibility of meaningful corporate codes of ethics, the empirical question can be asked - how ‘committed’ are Australia’s large private sector firms to codes of ethics?
Chapter 5

Research into Codes of Ethics

5.1 Introduction

The empirical research for this thesis seeks to evaluate the commitment to codes of ethics amongst Australia’s top 500 private sector businesses. This question is broken down into three major questions, the first cascading into five subsidiary ones:

1. Do Australia’s top 500 private sector companies reveal commitment by:
   (i) Having a code?
   (ii) The way it was developed?
   (iii) Adequate internal implementation measures?
   (iv) Adequate communication to stakeholders?
   (v) Perceiving positive benefits from the code?

2. How do Australian codes compare with codes in the USA and Canada, and what does this tell us about differences in objectives between countries?

3. What do high commitment (best practice) codes look like on closer examination through case study research?

The research program associated with these questions has three aspects that require preliminary attention.

First, this research program seeks to extend Australian research beyond the boundaries of existing studies (Kaye 1992 and Farrell & Cobbin 1994a & b). It does so in the following ways:

- Through the use of a large sample of respondents.
- By focussing on private sector firms and excluding non-market public sector organisations.
• By going beyond content analysis of codes into survey analysis of the supporting or implementation measures in firms.
• By supplementing quantitative research (survey) with qualitative research (case study) to provide in-depth data on ‘best practice’ codes.
• By comparative data analysis examining Australian code content in relation to similar US and Canadian data.
• By focusing research findings around a central issue - corporate commitment, that is larger than ‘mainstreaming’.

The second point concerns a similarity between the research for this thesis, and that undertaken by Kaye and Farrell & Cobbin. All three studies are inductive exploratory research, gathering data in a new, ‘theory poor’ field of study, mapping basic facts about the phenomenon, and interrogating data inductively to generate questions that may guide further research rather than testing hypotheses derived from existing theory. In adopting an inductive approach the research is consistent with that found in the USA and Europe on the subject of business ethics. This exploratory approach is further described and justified in s.5.2 below.

Third, the data collection approach was multi-faceted, comprising three principal parts:

• Stage 1 survey of respondents (population of the top 500 private sector firms in Australia)
• A Stage 2 study of selected ‘best practice’ respondents to the survey.
• Content analysis of codes of ethics supplied by respondents.

This mix of qualitative and quantitative techniques is further described in s.5.3 below.

This mix of data-collection methods evolved in part as the exploratory research developed, although the first two parts were planned from the outset as part of a formal data-collection approach. The mix is not dissimilar to data collection methods used in US research on business ethics.

It may help the reader to see how data gathered by different methods has been used to deal with different questions concerning aspects of ‘commitment’ to codes of ethics. This is shown in the diagram below.
Figure 5.1: Aspects of Commitment

<table>
<thead>
<tr>
<th>Aspect of Commitment</th>
<th>Data Source</th>
<th>Location of Research Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Incidence of codes</td>
<td>Stage 1 survey of top 500 firms</td>
<td>Ch. 6.2</td>
</tr>
<tr>
<td>2. Development of codes</td>
<td>Stage 1 survey of top 500 firms</td>
<td>Ch 6.3</td>
</tr>
<tr>
<td>3. Implementation of codes</td>
<td>Stage 1 survey of top 500 firms</td>
<td>Ch 6.4</td>
</tr>
<tr>
<td>4. Communication of codes</td>
<td>Stage 1 survey of top 500 firms</td>
<td>Ch 6.5</td>
</tr>
<tr>
<td>5. Perceived value of codes</td>
<td>Stage 1 survey of top 500 firms</td>
<td>Ch 6.6</td>
</tr>
<tr>
<td>6. Objectives of codes</td>
<td>Content analysis of codes</td>
<td>Ch 7</td>
</tr>
<tr>
<td>7. A close up on best practice codes</td>
<td>Stage 2 case analysis</td>
<td>Ch 8</td>
</tr>
</tbody>
</table>

5.2 The Selection of a Research Approach

Nachmias and Nachmias (1987) describe the research process as containing seven elements which revolve around the development of theory: problem, hypothesis, research design, measurement, data collection, data analysis and generalization. They regard theory development in any research process as being the central purpose of all projects and interrelated to the other elements in the process.

Kerlinger (1986:9) also believes that the basic aim of science is theory development. He defines a theory as,

\[\text{a set of inter-related constructs (concepts), definitions, and propositions that present a systematic view of phenomena by specifying relations among variables, with the purpose of explaining and predicting the phenomena.}\]

Wood (1981) enlarges on Kerlinger’s definition by adding that theories can be viewed as ‘tentative explanations’ which need to be investigated in order to ascertain the reliability of the theory in the light of current research findings. Furthermore, the theory needs to be examined to determine whether it can predict new findings. Wood regards theories as having two major functions of: i) guiding research and ii) organising those facts that are obtained from the research. Thus theories are valuable in part because they establish testable
relationships. Experiments can then either confirm findings and add to them; or repudiate the original theory; or modify it based on the interpretation of the data that a study reveals. Nachmias et al (1987), Kerlinger (1986) and Wood (1981) are putting forward here a model of research associated with Karl Popper who insisted that theory should precede research. He held that scientific knowledge would advance faster if ideas were developed first about phenomena, and then either proven or falsified by empirical testing. His strategy entailed five stages:

1. Construction of an explicit theory or model.
2. Selection of a proposition derived from the theory or model for empirical investigation.
3. Designing a research project to test the proposition.
4. If the proposition derived from the theory is rejected by the empirical data, changes in the theory or the research project are to be made.
5. If the proposition is not rejected, one selects other propositions for testing or attempts to improve the theory.

(Nachmias et al., 1987:50)

However, there is a widely accepted alternative approach to social research. Robert Merton is a believer in this ‘Research then Theory’ approach. The principles that govern this strategy are:

1. Investigation of a phenomenon and delineating its attributes.
2. Measurement of the attributes in a variety of situations.
3. Analysis of the resulting data to determine if there are systematic patterns of variation.
4. Once systematic patterns are discovered, a theory is constructed. The theory may be of any of the types discussed earlier, although a theoretical system is preferred.

(Nachmias et al., 1987:51)

Figure 5.2: Inductive and Deductive Research Approaches
The research method for this thesis is modelled on the inductive approach outlined by Merton and others. It is imperative to note the justifications for this in: (a) the lack of any testable theory on codes of ethics, (b) the absence of previous exploratory research from which hypotheses may be drawn, and (c) the use of exploratory/inductive research methods in comparable US, Canadian and European studies (Chatov, 1980; Cressey and Moore, 1983; Mathews, 1987; David, 1988; Hite, Bellizzi and Fraser, 1988; Robin, Giallourakis, David and Moritz, 1989; Brooks, 1989; Benson, 1989; Langlois and Schlegelmilch, 1990; Schlegelmilch and Houston, 1990; and Lefebvre and Singh, 1992).

5.3 Quantitative and Qualitative Methods of Data Collection and Analysis

As outlined above, both quantitative and qualitative methods were employed. The initial quantitative research was based upon a survey of 500 companies. This survey we describe as Stage 1 of the research and involved the use of a postal questionnaire. A second questionnaire was then developed. It specifically related to the answers provided by the respondents to the Stage 1 questionnaire and was used in Stage 2 in order to enable a more in-depth analysis of the responses from the selected organisations.
Each company in Stage 1 was sent an introductory letter, a twenty-one page questionnaire, a one page overview of the background of the researcher and a reply paid envelope. (Appendix F)

The letter was addressed to the public relations manager of each organisation rather than the CEO. This was an attempt to maximise response rates, since CEOs may be too busy to respond. In contrast, public relations managers are more likely to have time and to consider presenting company ethics policies as part of their job.

In similar overseas studies, initial requests were often directed to the CEO resulting in poor response rates. Chatov in 1980 had a 28.1% response rate from 1000 requests; David in 1988 had 178 responses from 1000 letters sent to CEOs (17.8%); Hite, Bellizzi and Fraser (1988) received 73 responses from 500 letters sent to CEOs of the US Fortune 500 companies (14.6%); Giallourakis, David and Moritz in 1988 received 84 codes from 1000 requests (8.4%). However, Schlegelmilch and Houston in 1988 received a 49% response rate from letters sent to the 200 largest companies in the *Times* 1000 company business directory. Mathews (1987) on 485 selected manufacturing companies in the United States received a response rate of 71% and Lefebvre and Singh (1992) received a response rate of 48.9% on 461 companies from the *Financial Post* in Canada. In the Australian study by Farrell and Cobbin (1994a) the response rate was 41.9%. The response rates for the overseas studies, with the exception of Schlegelmilch and Houston (1988), Mathews (1987), and Lefebvre and Singh (1992) are in most cases low.

Accompanying the Stage 1 questionnaire was a letter of request to provide the organisation’s ethics code or similar documents. Also included was a one page brief on the researcher’s business and academic background.

Once responses for the Stage 1 survey had been received and collated then the study proceeded to Stage 2 of the research project. Stage 2 was conducted in an attempt to identify Best Practice in this area within Australia. A selection was made of companies for follow up, based upon the original response, and the contents of the organisation’s documents. The criteria for selecting Stage 2 follow up firms related to measures of ‘best practice’ ethics. The reason for this selection was to interrogate more closely how ‘committed’ were Australia’s leading exponents of ethical best practice: the best may still be poor?
The method employed in Stage 2 was to send a second in-depth questionnaire to an executive of each of the companies which had been selected. This questionnaire focussed upon a set of specific questions yielding company specific data for a case study. The question areas used in Stage 2 were the same as those in the original questionnaire, but more questions were asked seeking in-depth explanations and clarification of how the ethics process worked within the organisation. The main purpose of the Stage 2 questionnaire was to seek amplification on the way that each organisation established its code of ethics and had attempted to inculcate it into the mainstream culture of the organisation. The respondents’ answers to the first questionnaire were factored into the wording of the second questionnaire so they were aware of their original responses. (Appendix G)

This case study method - using a number of cases in respect to investigating a particular topic - is called, by Stake (1995), collective case study. The view is that these multiple cases would be able to generate closer insight into ethical best practice, and a taxonomy of varieties of best practice.

Brigley (1995) believes that the use of case studies is an excellent way to conduct research into business ethics questions and problems. Brigley suggests that case studies produce richer evidence of what is happening in a particular organisation rather than statistically quantifiable data. In this study the responses for Stage 2 were not collated as in the first stage of the research. Similarities and differences were analysed from a point of view of commonality and disparity but frequency measures were not used.

5.4 Data Gathering Procedures

The purpose of the Stage 1 questionnaire was to elicit factual information about the establishment of the codes of ethics of each organisation. The objective of the survey was to establish, a factual data, the existence and characteristics of codes of ethics in the top 500 private sector companies in Australia. Even in Stage 2 of the research, which focussed upon specifically selected organisations in an attempt to define Australian Best Practice in this area, this concentration upon factual questions remained. The purpose was to establish how they
implemented the code of ethics within their organisations rather than to explore the effectiveness of the codes from the perspective of the company.

The questionnaire included both closed questions and the open-ended questions. In some questions set responses were provided and the respondents were asked to indicate the responses in each question that were applicable to their organisations. Those questions that used an open-ended frame were designed so as not to limit the range of factual information that may have been volunteered. The questionnaire was also designed to attempt to exclude intrusive questions, bias and ambiguity.

The pilot test on the questionnaire was conducted in May, 1995. The questionnaire was sent out to 24 companies selected by random sample from the top 150 companies of the intended sample of 500 companies. The response rate was 62.5%. The questionnaire appeared to contain no major problems as all of the recipients, who participated in completing it, appeared to be able to understand the meaning of the questions, and follow their sequence. The final questionnaire was sent out with minor modifications to the wording of some questions and some minor changes in layout. The changes did not substantially affect the thrust of the questionnaire. They were mainly cosmetic measures designed to enhance response rates and assist the ease of questionnaire completion. The Stage 2 questionnaire was sent out in April of 1996.

As stated earlier, the population surveyed in this study was the top 500 companies operating in the private sector in Australia. The reasons for the choice of these organisations were as follows:

- Large firms were found in the USA to be more likely than small ones to have a formal code of ethics. Thus, data collection was aimed at a population where the phenomena under investigation was likely to occur.

- Those enterprises operating exclusively in the public sector were excluded because ethical issues are likely to be qualitatively different. This is because such organisations often have ethical objectives set by government that clearly override profit maximization, which may in itself not be an objective at all. (It should be noted that those government owned companies operating in the private sector may well differ in their profit motive objective to those exclusively operating in the public sector.)
5.5 The Stage 1 Questionnaire: Justification for Questions

The Stage 1 questionnaire was designed to explain several aspects of a company’s ‘commitment’ to codes of ethics. At the beginning of the Chapter several dimensions of commitment were introduced. These included having a code, the manner of development, internal implementation, adequate communication, and perceived benefit. These aspects of commitment are explained in the questionnaire as follows:

- Incidence of code (Q.7)
- Manner of development (Q.8-27)
- Implementation (Q.28-40)
- Communication (Q.41-42)
- Perceived benefits or evaluation (Q.43-45)

An additional section of the Stage 1 questionnaire provided demographic data on respondents (Q.1-6).

Each question, in the Stage 1 survey was included on the basis that the issues had been explored in the ethics literature. As such, each question in this section of the thesis was linked to either theory or ideas that have been previously discussed. There will be cross-referencing to previous work in this thesis, as each question is justified for inclusion in the survey.

The first section of the questionnaire, entitled Section A: About Your Organisation, was designed in an attempt to draw from the respondents, demographic information about their organisations which would allow the researcher to group them according to the categories of:

Q 1. Nature of Business: (If involved in numerous sectors please identify your ‘core’ business)
Q 2. Home Country of Parent Company:
Q 3. What is the approximate annual turnover of your organisation?
Q 4. Approximately how many equivalent fulltime staff does your organisation employ?
Q 5. What is the Ownership structure of your organisation?
The purpose was to determine if codes of ethics were more prevalent in some demographic groupings than others. The Australian and New Zealand Standard Industrial Classification Code (ANZSIC) was used to classify the core business of each company surveyed.

Section B, also contained questions designed to attempt to explore the impact of parent companies on code adoption.

Q 6. Your relationship to your parent company is that:

a. We are the parent company
   We are not the parent company

b. Does your parent company have a code of ethics?

Thus, question 6 explores the organisation’s place within its own company structure. The reason for asking the question was to investigate whether or not the parent company may have had a code of ethics and whether or not it applied to its subsidiary. Where subsidiaries had no such code, one may speculate that this indicates a lack of commitment to the principle that a company had to genuinely implement a code of ethical behaviour in the organisation.

Q 7. Our Company has a Corporate Code of Ethics/Practice/Conduct.

The point of this question was to quantify the incidence of a code of ethics.

Q 8. In what year was the Code established?

Australian interest in codes of ethics is thought to originate in the late 1980s and early 1990s (Ch.1). This question tests that assumption.

Q 9. Was your Code:
   a. originally put together by your company from its own ideas without reference to any other code
   b. developed from an industry code
c. adapted from another company’s code of ethics
d. adapted from an association’s code of ethics

Company codes of ethics in the United States of America evolved from industry based codes (Ch.1). In Australia a number of industry codes have been established or are being established in banking, franchising and insurance (Ch.1). This question asks whether codes of ethics were initiated by the companies themselves and individually tailored, or whether they have stemmed from an industry approach and are therefore reflections of industry standards.

Q 10. Who was involved in the establishment of your company Code?
   a. Chief Executive Officer
   b. Board of Directors
   c. Senior Managers
   d. Other Staff
   e. Customers
   f. Others (please detail below)

This question explores which stakeholders were involved in establishing the code. The question spans internal and external groups and different levels of seniority (Ch.1).

Q 11. Why was the Code developed?

This open-ended question was designed to seek out the raison d’être for the code. The motives behind the establishment of the codes may have revealed a common set of reasons for their establishment, either on a national or an industry basis. The reasons would have given an insight into the philosophical underpinning of the trend towards codes of ethics. Whilst the objective was to investigate the philosophical basis upon which the code could be established, the limit of six lines for the answer meant that respondents had to answer briefly. (It was meant to be indicative of the possible reasons for the implementation of codes of ethics.)

Q 12. How long did it take to develop the Code?
This open-ended question was intended to determine the length of time involved in the process that companies went through in order to arrive at the code of ethics i.e. how long the process took.

Questions 13 to 27 are variations of the questions asked in questions 10 to 12. Each bank of questions (13-17, 18-22 and 23-27) relates to the direction that each company took when it chose initially to focus upon the establishment of the company’s code of ethics. The answers can be examined for trends and compared across the four banks of questions (10-12, 13-17, 18-22 and 23-27) which were all on the same topics but were just different approaches to the establishment of a code of ethics.

In Section C, the ‘Implementation of the Code’, the emphasis was upon the ways in which the companies implemented the code of ethics into their individual organisations. The research interest inherent in these questions was centred on the need to examine the commitment to the principles of the code of ethics that the organisation had, by examining the means by which organisations integrated the code into the every day lives of their employees. The search was for tangible manifestations within both the workplace and within company procedures of the intended philosophical direction of the organisation in respect to ethics. Raiborn and Payne (Ch.1) expressed concerns that workers might have when a code of ethics could be imposed from above by management. A number of solutions to these dilemmas were addressed in the ensuing bank of questions.

Q 28. How is the Code displayed in your organisation?
Q 29. How is the Code communicated to your organisation’s workers?
Q 30. How does your company induct new staff in respect to the Code?

These three questions relate to the issue of code communication internally to the workforce. In relation to question 28, Benson (1989) contends that codes should be prominently displayed within the organisation, where not only the employees of the organisation but also its attendant publics can see them (Ch.1). Stead et al., (1990) also believe that codes should be developed and then communicated throughout the organisation in the most open of ways possible, to ensure that workers feel a part of the process not an addendum to it (Ch.1). Townley (1992) suggests that business leaders believe that disseminating codes of ethics throughout the organisation will limit the probability of unethical
behaviour (Ch.1). The reason for asking question 30 was as an extension of the logic expressed in questions 28 and 29. If the company is committed to the code of ethics then surely it must be a feature of the induction process to which all new employees are subjected. This question checked the level of commitment and would reveal, it was hoped, the methods of induction for new staff in respect to the code.

Q31. Are there consequences for your staff if they commit a breach of the Code?

The work of Sims (1991), Fraedrich (1992), Stoner (1989), and Hegarty and Sims (1979) (Ch.4) all suggest that organisations must have provisions within the code of ethics and the company’s policies that enable enforcement of penalties against those who transgress against the code. If a company does not include a penalty provision then one will emasculate the code. This lack of penalty for a breach of the code signals to employees that, whilst the principles of the code may be worthwhile pursuing, the non-adherence to them would not be seen by the organisation to be sufficiently reprehensible, to necessitate a formal rebuke.

Q32. Is an employee’s ethical performance a criterion for employee appraisal?

The view that organisations should formalise the ethical performance of employees in the organisation’s employee appraisal system is supported by Laczniak and Murphy (1991), Fraedrich (1992), and Harrington (1991) (Ch.4). In the United States of America, Northrop has instituted anonymous questionnaires about a worker’s ethical performance that have been distributed to peers and subordinates (Ch.1). This incorporation of one’s ethical performance into the performance appraisal is just another criterion that can be used to assess the organisation’s commitment to the process of cultural change, designed to enhance the desire to be an ethical organisation.

Q33. Do you have formal guidelines for the support of whistleblowers?

This question was asked to seek out the organisation’s perspective in respect to this practice. It appears that those who are involved with whistleblowing
invariably tend to suffer in some way because of their disclosures. Even the term, ‘whistleblower’ is one that conjures images of negativism, that one is violating codes of ‘mateship’. The Australian view in this area would be interesting to establish as one of our historical, social cliches is, ‘don’t dob in your mates’. However, if organisations are to evolve into ethical entities, individuals must take both individual and collective action to change the practices that they see that may be an antithesis to the ethical health of the organisation. Someone must make the move to expose violations of the organisation’s ethical principles. However, taking this required action is not easy, because of the downside to the individual of the actions that they take to reveal unethical or unlawful practices.

The following figures from the USA support this assertion. In 1990 a survey was published of 233 American whistleblowers and what had befallen them since their revelations:

- 90% lost their jobs or were demoted
- 27% faced lawsuits
- 26% faced psychiatric or medical referral
- 17% lost their homes
- 15% were subsequently divorced
- 10% attempted suicide
- 8% went bankrupt

(Grace & Cohen, 1995:171)

Q 34. How often does your company examine, discuss and revise the Code?

A code is a creature of the time of its conception and creation. The social mores and ethical values of a society can be flexible, open to change and therefore dynamic. A code to be relevant and effective, one could argue, must therefore be constantly examined, reviewed, discussed and upgraded to reflect the current circumstances that face the organisation in its general and task business environments. Murphy (1988) and Laczniak and Murphy (1991) believe that codes must be revised periodically (Ch.1).

Q 35. Does your company use its Code of Ethics to guide its Strategic Planning?

This question was asked as a result of the desire to test the Australian situation in respect to the concept of incorporating ethics into the strategic planning process as espoused by Robin and Reidenbach (1987) (Ch.4). The researcher hoped that some insight could be obtained into the pervasive entrenchment of
ethics within the organisation’s psyche. It is an integral part of planning that ethical principles should be practised. However, the view held was that Australian organisations are, in most cases, still in the evolutionary stage of ethical development in which they focus upon the legalistic aspects of their corporate involvement with ethics (Ch.4). Therefore, planning and ethics may not be integrated in accepted company planning procedures.

The questions in Section D, ‘Complementary Activities to Augment the Code’, focus upon those activities which support not only the code of ethics but the organisational initiatives to inculcate ethical business practices into the organisation.

Q 36. Does your company have a standing ethics committee or its equivalent?

If organisations are beginning to realise the need for ethical practices in their organisations then ethics committees may also be contemplated. Weber (1981), the Center for Business Ethics (1986) in the United States of America and McDonald and Zepp (1989) all believe that an organisation should have an ethics committee (Ch.4). This initiative is another indicator of an organisation’s commitment to the pursuit of ethical business practices.

Q 37. Does your company have an ethics training committee or its equivalent?
Q 38. Is ethics training conducted for the staff of your organisation?

These questions were linked by an interest in the provision of training and the need for employees to participate in such training. The contention is that training and education will always be managed and co-ordinated better if a central authority within the company takes control of the training for that organisation and provides direction. Hence, the establishment of a training committee that could not only co-ordinate, but also monitor the level of training and the subsequent exposure to and awareness of ethical issues was sought.

Training programmes, as a means of incorporating ethics into the organisation, have been advocated by a number of writers (Ch.4). The desire was to examine the commitment to employee awareness by the organisation, through the support of staff to undertake training in business ethics. Without training, one could contend that the desire to incorporate an ethical perspective into the
business practices of employees will only be a dream that can not be translated into practice.

Q 39. Does your company have an ethics ombudsman or its equivalent?

This question can be linked with question 33 on the company belief in whistleblowing. The dilemma that many employees face, in a situation of recognising unethical practices and taking steps to expose them, is in knowing to whom one can take an issue so as to ensure its integrity; the integrity of the person against whom the complaint is made and usually, most importantly, for the person making the complaint, the guarantee of their own freedom from reprisals. In the United States of America 200 major corporations have appointed ethics officers. One of their specific roles is to encourage whistleblowing where a genuine worker concern exists (Ch.1). Gellerman (1989), and Stoner (1989) support the contention that organisations should have the provision within company policy for disclosures of acts which are inconsistent with accepted company ethical practices and procedures (Ch.4).

Q 40. Does your company conduct an ethical audit of its operations?

The need for a company to conduct an ethical audit is linked with the need to monitor employee and company performance. Audits are an accepted format for monitoring organisational performance in a number of business areas and ethics should not be seen to be any different. In the United States of America in 1984 the Center for Business Ethics (1986) found that companies were performing social audits of the ethical impacts of company practices upon society (Ch.4).

Section E, entitled ‘The Code and the Community’, was constructed in order to examine the ways in which the organisation incorporated the various stakeholders of the organisation into its ethical practices.

Q 41. Are your customers informed of the existence of the Code?
Q 42. Are your suppliers informed of the existence of the Code?

This set of questions resulted from a desire to investigate the belief of Fraedrich (1992) (Ch.1) that an external code of ethics which addressed the organisation’s relationships with customers, competitors and the general community should
be implemented. Benson (1989) also contends that codes of ethics should focus on these outside publics and they should be considered and recognised when the code of ethics is established (Ch.1). These questions were thus designed to explore the individual organisation’s interaction with the publics outside of the organisation.

Q 43. How does your company see the Code of Ethics assisting its bottom line? (i.e. Profit)

In Chapter 2 the link between the profit motive and ethics was examined. The belief was that if a company embraced an ethical philosophy then it might lead to an improvement in the profit of the organisation. This question was asked in order to obtain a perspective from the organisations in respect to whether they could suggest and support a link between having a code of ethics and profitability.

Q 44. Has the Code ever assisted your company with resolving ethical dilemmas in the market place?

This question sought examples of a link between the company’s code of ethics and the resolution of actual problems in the area of ethics that arose in the market place. It was an attempt to gather anecdotal evidence of the use of codes of ethics in every day business situations that the organisation faced. A list was compiled of every day areas of business practice which may have been areas in which ethical dilemmas could have occurred.

Q 45. Would you please rate your impression of the effectiveness of your Company’s Code of Ethics.

The purpose of this question was to obtain a self-rating from each company as to the effectiveness of their code of ethics. The question was not based upon any prior theory.

Q 46. Do you believe that your company will be introducing a Code of Ethics/Practice/Conduct within the next 2 years?

This question was directed to respondents giving a negative answer to question 7 (on the incidence of codes). The aim was to establish if these organisations
were contemplating a code of ethics within the next two years. In other words, was a code of ethics on the management agenda?

In Section F, the ‘Final Section’, the questions asked were in an attempt to obtain permission for future follow up to the responses to the questionnaire.

Q 47. Would you and your organisation allow me the opportunity to discuss your answers further if I thought that it would be of benefit to my research?
Q 48. If your answer was YES to Question 47, to whom should I address my inquiries?

The final two questions were asked to enable follow up comments from participants for further clarification within the research design to be sought. They were included to determine which organisations might have been willing for further discussions in this area and therefore could be potential candidates for follow up in Stage 2 of the project where the intention was to investigate in more depth the responses of best practice respondents.

5.6 Response Rates

We have noted that data collection proceeded in three stages.

(i) Stage 1 - Survey (top 500 private sector firms)
(ii) Stage 2 - Cases of best practice
(iii) Content Analysis of Codes of Ethics

The maximum possible response for the first and third stages (Stage 1 survey and the Code Content Analysis) was 500. Stage 2 Case Studies were selected on a thematic basis and response rate is irrelevant for them. Overall response rates were complicated by the fact that firms might complete the survey, provide a code, or do either or neither of these things.

The main responses are shown below in Table 5.1.

Table 5.1: Response Rates to the Survey Questionnaire

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<th>Type of Responses</th>
<th>Number</th>
<th>%</th>
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<tbody>
<tr>
<td>No Responses</td>
<td>137</td>
<td>27.4%</td>
</tr>
</tbody>
</table>
There were 61 companies that replied to the letter inviting their participation or to a follow-up inquiry, but declined to be involved. They gave several reasons. These are shown in Table 5.2 below. These 61 firms supplied neither a questionnaire for analysis nor a code.

### Table 5.2: Reasons Proffered for Non-Participation to Questionnaire

<table>
<thead>
<tr>
<th>Reasons Stated</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Policy</td>
<td>22</td>
<td>36.07%</td>
</tr>
<tr>
<td>Company Restructure/Demise</td>
<td>14</td>
<td>22.95%</td>
</tr>
<tr>
<td>Not Applicable</td>
<td>8</td>
<td>13.11%</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>8.20%</td>
</tr>
<tr>
<td>Private Matter</td>
<td>3</td>
<td>4.92%</td>
</tr>
<tr>
<td>Time Constraints</td>
<td>9</td>
<td>14.75%</td>
</tr>
<tr>
<td><strong>Total (n=61)</strong></td>
<td>61</td>
<td>100%</td>
</tr>
</tbody>
</table>

Many companies of the non-participant group (22) stated that because of their profile and the number of such research inquiries that they received, that they did not as a matter of company policy wish to participate. The time involved many claimed was excessive and rather than be discriminatory they adopted a blanket ‘No Response’ policy. The lack of time and company policy in most cases were linked.

The 279 respondents who gave data may be categorised as follows in terms of the type of data supplied.

### Table 5.3: Categories of Response of Participants

<table>
<thead>
<tr>
<th>Categories of Responses</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code Only</td>
<td>14</td>
<td>2.8%</td>
</tr>
<tr>
<td>Code &amp; Questionnaire</td>
<td>69</td>
<td>13.8%</td>
</tr>
<tr>
<td>Questionnaire Only</td>
<td>196</td>
<td>39.2%</td>
</tr>
<tr>
<td>No Response</td>
<td>221</td>
<td>44.2%</td>
</tr>
<tr>
<td><strong>Total (n=500)</strong></td>
<td>500</td>
<td>100%</td>
</tr>
</tbody>
</table>
This means that a total of 265 valid questionnaires were received giving a response rate for the Stage 1 survey of 53%. This is a good response rate for analytical purposes, but it is open to the charge of response bias - that respondents are more likely to have a code than non-respondents. For this reason we cannot estimate the actual incidence of codes in the population.

A total of 83 codes were received - 16.6% of the total survey population. Of course many firms in the total population of 500 had no code. What then was the response rate for codes as a percentage of top 500 firms with codes? The 69 codes supplied with a questionnaire represent 57% of the survey respondents who had a code, this percentage rising to 61.5% if the additional 14 codes are included. Codes were withheld mainly for privacy reasons.

There were some interesting responses from companies who had returned both questionnaire and code but who placed conditions upon the retention or use of the code. One company asked that the, “code be read and then destroyed”. A respondent from another company highlighted that this was “an unprecedented step for our company to allow an outside person access to the code”. Another company senior executive who returned the questionnaire only, said that the researcher could have access to the code in order to read it, however, the researcher would have “to come to the premises of our company and read it under supervision”.

In general, we consider the Stage 1 survey response rate of 53% satisfactory for analytical purposes, whilst the 83 codes (61.5% of survey respondents with codes) is also satisfactory for code analysis.

Stage 1 surveys were sent to public relations managers. However, these were not the typical officer to respond.

Table 5.4: Respondents’ Designated Job Areas

<table>
<thead>
<tr>
<th>Designated Job Areas</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO/ MD</td>
<td>7</td>
<td>3.41%</td>
</tr>
<tr>
<td>Company Secretary</td>
<td>32</td>
<td>15.61%</td>
</tr>
<tr>
<td>Compliance Manager</td>
<td>9</td>
<td>4.39%</td>
</tr>
<tr>
<td>Corporate Affairs</td>
<td>16</td>
<td>7.80%</td>
</tr>
<tr>
<td>Finance &amp; Administration</td>
<td>17</td>
<td>8.29%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>53</td>
<td>25.85%</td>
</tr>
<tr>
<td>Legal</td>
<td>9</td>
<td>4.39%</td>
</tr>
</tbody>
</table>
Table 5.4 shows the respondent officers’ designated job title or area. As one can see there was a range of respondents to the survey. The major respondents were in the areas of Human Resources (25.85%), Company Secretary (15.16%), Public Relations (13.17%), and Management (13.17%). There was also a response rate of 7.8% for Corporate Affairs which may include Public Relations. Even though the questionnaire was sent to the Public Relations Manager in each company, it was forwarded to a wide range of respondent types.

While this ‘pass the parcel’ approach by respondent firms increased the overall response rate, it may have introduced some unintended variance in respondent bias, through different types of managers answering the questionnaire from different perspectives. This is not considered to be significant.

5.7 Summary

This chapter began by restating the empirical question - how committed are Australia’s top 500 private sector firms to codes of ethics? The question was then broken down into seven subsidiary questions - the first five concerning incidence, development, implementation, communication, and perceived benefits, and the other two looking at code purpose or objectives (by comparing Australian code commitment to US and Canadian practice), and testing depth of commitment in ‘best practice’ cases. Second, an exploratory/inductive research method was justified, largely in terms of the lack of prior theory and also by reference to comparable US, Canadian and European research. Third, a multi-layered data collection program was introduced comprising content analysis of codes, a Stage 1 survey of the top 500 private firms, and a Stage 2 more intensive study of selected best practice respondents to Stage 1.

The bulk of the chapter deals in detail with the Stage 1 survey which comprised both open-ended and closed-ended questions grouped into six main areas:

- demographic data
• incidence of codes
• development of codes
• implementation of codes
• communication of codes
• evaluation of codes

Each question in the Stage 1 survey was then explained and justified in terms of the research literature.

The sample for the Stage 1 survey (top 500 firms operating in the private sector) was justified on the grounds that smaller firms are less likely to be appropriate subjects (unlikely to develop formal codes), and organisations operating totally in the public sector are likely to have a different position on ethical codes.

An overall response rate of 68% was reported, but with useable Stage 1 survey responses falling to 53% of the population. Codes were present in 45.7% of survey questionnaire respondents. Codes were supplied by 57% (n=69) of survey questionnaire respondents with codes and by an additional 14 firms (non-respondent to the survey questionnaire). The survey response rate was considered adequate for most purposes. The number of codes received was deemed adequate for content analysis.

The next chapter examines the research findings of the Stage 1 survey in order to answer the question regarding corporate commitment to codes of ethics.
Chapter 6

The Australian Situation: An Analysis of the Results

6.1 Introduction

This Chapter analyses Stage 1 survey data to determine the nature of corporate commitment to codes of ethics. It was noted in Chapter 1 and Chapter 5 that the survey data can indicate five broad areas in which companies can show the importance they vest in codes:

- Incidence (adoption of a code establishing basic commitment)
- Development (multiple stakeholder involvement and customisation indicate higher commitment)
- Implementation (publicising internally, training, and enforcement signify commitment)
- Communication (publicising to all external and internal stakeholders signifies high commitment)
- Perceived value (benefits to profitability and in other areas may be associated with high commitment).

Data is presented in sequence for these five indicators of corporate commitment to codes of ethics. In Section 6.7 we conclude by reviewing these findings as a whole.

An important disclaimer should be made at the beginning. The data for each of these indicators of commitment cannot be plausibly combined into a composite index of ‘commitment’ in which quantitative weightings are given to different components of the index. This limits the possibilities for quantitative analysis of the survey findings.

Our method in analysing quantitative data on ‘commitment to codes of ethics’ is not to produce a single comprehensive measure or index, but rather to approach a complex concept from a number of different directions. Commitment can be viewed in terms of inputs (resources applied), outputs (perceived benefits or value), purpose (important or marginal) and best
practice. These represent different aspects of, or approaches to commitment, and are not easily merged in a composite measure.

6.2 Commitment to Codes (i): Incidence

First the overall incidence of codes amongst survey respondents was 45.7% - a high rate, but one likely to be inflated by response bias in the survey population of the top 500 private sector firms. The actual incidence of codes in this population is likely to be below 45.7% (but certainly above 27%). Let us look at the incidence of codes, by industry, country of ownership, turnover ($A) and employee number. Section A of the Stage 1 survey was designed to capture data on these demographic variables.

First, each respondent’s principal industry was established by their response to Question 1 (Nature of business – if involved in numerous sectors please identify your core business). Table 6.1 shows the industry distribution of survey respondents with or without codes of ethics.

Table 6.1: Incidence of Codes x Industry

<table>
<thead>
<tr>
<th>Nature of Business</th>
<th>Code</th>
<th>Code %</th>
<th>No Code</th>
<th>No Code %</th>
<th>Total</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry &amp; Fishing</td>
<td>2</td>
<td>1.65%</td>
<td>6.5</td>
<td>4.51%</td>
<td>8.5</td>
<td>3.21%</td>
</tr>
<tr>
<td>Mining</td>
<td>8.5</td>
<td>7.02%</td>
<td>16</td>
<td>11.11%</td>
<td>24.5</td>
<td>9.24%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>34.5</td>
<td>28.51%</td>
<td>38.5</td>
<td>26.74%</td>
<td>73</td>
<td>27.55%</td>
</tr>
<tr>
<td>Electricity, Gas &amp; Water Supply</td>
<td>2</td>
<td>1.65%</td>
<td>2</td>
<td>1.39%</td>
<td>4</td>
<td>1.51%</td>
</tr>
<tr>
<td>Construction</td>
<td>3</td>
<td>2.48%</td>
<td>6</td>
<td>4.17%</td>
<td>9</td>
<td>3.40%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>8</td>
<td>6.61%</td>
<td>15.5</td>
<td>10.76%</td>
<td>23.5</td>
<td>8.87%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>7</td>
<td>5.79%</td>
<td>12.5</td>
<td>8.68%</td>
<td>19.5</td>
<td>7.36%</td>
</tr>
<tr>
<td>Accommodation, Cafes &amp; Restaurants</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Transport &amp; Storage</td>
<td>5</td>
<td>4.13%</td>
<td>4</td>
<td>2.78%</td>
<td>9</td>
<td>3.40%</td>
</tr>
<tr>
<td>Communication Services</td>
<td>6</td>
<td>4.96%</td>
<td>3</td>
<td>2.08%</td>
<td>9</td>
<td>3.40%</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>28</td>
<td>23.14%</td>
<td>23</td>
<td>15.97%</td>
<td>51</td>
<td>19.25%</td>
</tr>
<tr>
<td>Property &amp; Business Services</td>
<td>6</td>
<td>4.96%</td>
<td>2</td>
<td>1.39%</td>
<td>8</td>
<td>3.02%</td>
</tr>
<tr>
<td>Government Administration &amp; Defence</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Education</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Health &amp; Community Services</td>
<td>0</td>
<td>0.00%</td>
<td>3</td>
<td>2.08%</td>
<td>3</td>
<td>1.12%</td>
</tr>
<tr>
<td>Cultural &amp; Recreational Services</td>
<td>0</td>
<td>0.00%</td>
<td>1</td>
<td>0.69%</td>
<td>1</td>
<td>0.38%</td>
</tr>
</tbody>
</table>
The larger numbers of respondents came from Manufacturing (73 responses) and the Finance and Insurance industry (51 responses). Between them these industries provided 124 out of 265 responses (46.79%) of the sample. It is of interest that of the industry groupings with substantial responses (i.e. 5 or more) that the Finance and Insurance industry and the Transport and Storage industry are the only ones where the incidence of codes exceeds 50%.

A second aspect of incidence concerns the home country of the corporate parent (Q2 in the survey). Almost 87% of respondents have parent companies from four countries: Australia (57.9%), USA (14.3%), UK (7.7%) and Japan (6.8%). It is interesting to note that of these countries, Australia had the lowest incidence of codes.

<table>
<thead>
<tr>
<th>Home Country of Parent Company</th>
<th>Code</th>
<th>%</th>
<th>No Code</th>
<th>%</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>54</td>
<td>35.18%</td>
<td>99.5</td>
<td>64.82%</td>
<td>153.5</td>
<td>100%</td>
</tr>
<tr>
<td>France</td>
<td>0</td>
<td>0.00%</td>
<td>5</td>
<td>100%</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td>Germany</td>
<td>3.5</td>
<td>63.64%</td>
<td>2</td>
<td>36.36%</td>
<td>5.5</td>
<td>100%</td>
</tr>
<tr>
<td>Japan</td>
<td>8</td>
<td>44.44%</td>
<td>10</td>
<td>55.56%</td>
<td>18</td>
<td>100%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2</td>
<td>57.14%</td>
<td>1.5</td>
<td>42.86%</td>
<td>3.5</td>
<td>100%</td>
</tr>
<tr>
<td>Sweden</td>
<td>1</td>
<td>50.00%</td>
<td>1</td>
<td>50.00%</td>
<td>2</td>
<td>100%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5</td>
<td>71.43%</td>
<td>2</td>
<td>28.57%</td>
<td>7</td>
<td>100%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>11</td>
<td>53.66%</td>
<td>9.5</td>
<td>46.34%</td>
<td>20.5</td>
<td>100%</td>
</tr>
<tr>
<td>United States of America</td>
<td>30.5</td>
<td>80.26%</td>
<td>7.5</td>
<td>19.74%</td>
<td>38</td>
<td>100%</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>54.55%</td>
<td>5</td>
<td>45.45%</td>
<td>11</td>
<td>100%</td>
</tr>
<tr>
<td>No Response</td>
<td>0</td>
<td>0.00%</td>
<td>1</td>
<td>100%</td>
<td>1</td>
<td>100%</td>
</tr>
<tr>
<td>Total (n=)</td>
<td>121</td>
<td>45.66%</td>
<td>144</td>
<td>54.34%</td>
<td>265</td>
<td>100%</td>
</tr>
</tbody>
</table>

These figures suggest that in Australian owned firms acceptance and implementation of codes of ethics seem less well developed than for other countries.

Questions 3 and 4 were both designed to examine the effect of company size on the incidence of codes of ethics. Question 3 deals with financial turnover whilst Question 4 reports the number of equivalent fulltime employees.
Q 3. *What is the approximate annual turnover of your organisation?*

Q 4. *Approximately how many equivalent fulltime staff does your organisation employ?*

When answering Question 3, there was the possibility that companies may have not seen the categories of annual turnover as mutually exclusive. The design of the question asked for the respondents to circle one category only. Of the 265 respondents, that answered this question, not one circled more than one category.

Table 6.3: Incidence of Codes x Annual Financial Turnover ($ millions)

<table>
<thead>
<tr>
<th>Annual Turnover</th>
<th>Code</th>
<th>%</th>
<th>No Code</th>
<th>%</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$100</td>
<td>4</td>
<td>36.36%</td>
<td>7</td>
<td>63.64%</td>
<td>11</td>
<td>100%</td>
</tr>
<tr>
<td>&gt;$100</td>
<td>25</td>
<td>38.46%</td>
<td>40</td>
<td>61.54%</td>
<td>65</td>
<td>100%</td>
</tr>
<tr>
<td>&gt;$300</td>
<td>20</td>
<td>37.74%</td>
<td>33</td>
<td>62.26%</td>
<td>53</td>
<td>100%</td>
</tr>
<tr>
<td>&gt;$500</td>
<td>23</td>
<td>51.11%</td>
<td>22</td>
<td>48.89%</td>
<td>45</td>
<td>100%</td>
</tr>
<tr>
<td>&gt;$1000</td>
<td>12</td>
<td>50.00%</td>
<td>12</td>
<td>50.00%</td>
<td>24</td>
<td>100%</td>
</tr>
<tr>
<td>&gt;$2000</td>
<td>10</td>
<td>62.50%</td>
<td>6</td>
<td>37.50%</td>
<td>16</td>
<td>100%</td>
</tr>
<tr>
<td>&gt;$5000</td>
<td>18</td>
<td>51.43%</td>
<td>17</td>
<td>48.57%</td>
<td>35</td>
<td>100%</td>
</tr>
<tr>
<td>No Response</td>
<td>9</td>
<td>56.25%</td>
<td>7</td>
<td>43.75%</td>
<td>16</td>
<td>100%</td>
</tr>
<tr>
<td>Total (n=)</td>
<td>121</td>
<td>45.66%</td>
<td>144</td>
<td>54.34%</td>
<td>265</td>
<td>100%</td>
</tr>
</tbody>
</table>

It is clear from Table 6.3 that larger firms (measured by annual financial turnover) are more likely to have codes than smaller firms.

Analysis of Question 4 relates the number of equivalent fulltime employees that a company has to the propensity to have a code. Again, there is a clear positive correlation shown in Table 6.4 between size and the presence of a code of ethics.

Table 6.4: Incidence of Codes x Staff Numbers

<table>
<thead>
<tr>
<th>Fulltime Staff</th>
<th>Code</th>
<th>%</th>
<th>No Code</th>
<th>%</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$100</td>
<td>4</td>
<td>40.00%</td>
<td>6</td>
<td>60.00%</td>
<td>10</td>
<td>100%</td>
</tr>
<tr>
<td>101-500</td>
<td>26</td>
<td>34.67%</td>
<td>49</td>
<td>65.33%</td>
<td>75</td>
<td>100%</td>
</tr>
<tr>
<td>501-1000</td>
<td>25</td>
<td>50.00%</td>
<td>25</td>
<td>50.00%</td>
<td>50</td>
<td>100%</td>
</tr>
<tr>
<td>1001-5000</td>
<td>33</td>
<td>40.24%</td>
<td>49</td>
<td>59.76%</td>
<td>82</td>
<td>100%</td>
</tr>
<tr>
<td>5001-10000</td>
<td>7</td>
<td>87.50%</td>
<td>1</td>
<td>12.50%</td>
<td>8</td>
<td>100%</td>
</tr>
<tr>
<td>10001-20000</td>
<td>8</td>
<td>66.67%</td>
<td>4</td>
<td>33.33%</td>
<td>12</td>
<td>100%</td>
</tr>
<tr>
<td>&gt;20000</td>
<td>15</td>
<td>60.00%</td>
<td>10</td>
<td>40.00%</td>
<td>25</td>
<td>100%</td>
</tr>
</tbody>
</table>
This is as one would expect. Larger organisations have the time, the resources and the will to establish a code. Also they are, as a feature of their size, often more in the public eye and, therefore, see the need for a code. The lack of intimacy in larger organisations and the large numbers of people employed means that companies may also believe that they need to set out behaviour standards for their staff. These standards need to encompass ethical considerations in order for the company to conduct business in the manner that the management deems as desirable and acceptable.

**Q.5. What is the Ownership structure of your organisation?**

- **a. Totally Government**
- **b. Semi-Government**
- **c. Non-Government**

Table 6.5: Incidence of Codes x Ownership Structure

<table>
<thead>
<tr>
<th>Ownership Structure</th>
<th>Code</th>
<th>%</th>
<th>No Code</th>
<th>%</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Totally Government</td>
<td>4</td>
<td>3.31%</td>
<td>4</td>
<td>2.78%</td>
<td>8</td>
<td>3.02%</td>
</tr>
<tr>
<td>Semi-Government</td>
<td>2</td>
<td>1.65%</td>
<td>3</td>
<td>2.08%</td>
<td>5</td>
<td>1.89%</td>
</tr>
<tr>
<td>Non-Government</td>
<td>115</td>
<td>95.04%</td>
<td>137</td>
<td>95.14%</td>
<td>252</td>
<td>95.09%</td>
</tr>
<tr>
<td><strong>Total (n=)</strong></td>
<td>121</td>
<td>100%</td>
<td>144</td>
<td>100%</td>
<td>265</td>
<td>100%</td>
</tr>
</tbody>
</table>

The composition of the sample group was heavily biased towards Non-Government organisations (95.09%). This was the aim and was to be expected. The identified research interest was in companies operating in the private sector of business in Australia. Some Totally Government and Semi-Government organisations do participate in this sector of business but the number is limited. Only three of these companies sent in a code and a questionnaire (less than 3.7%). Unlike the Farrell and Cobbin study, the incidence and influence of Government or Semi-Government enterprises was minimal.

To summarise the main findings on incidence, the following points could be argued. First, a large minority of Australia’s top 500 private firms have codes of ethics. The proportion is likely to be more than a third, but less than half. They are reasonably well spread across industries, but with highest incidence in the Finance industries where – one could argue – the risks and costs of unethical
employee behaviour may well be greatest. Numerically, the largest numbers are in Manufacturing. Also, Australian owned firms lag behind foreign owned firms in their use, reinforcing the idea that they are an ‘imported’ idea rather than home grown. Finally, their incidence is related to firm size. Not surprisingly, larger firms seem more able to resource them and are more likely to codify ‘corporate values’ in this way.

6.3 Commitment to Codes (ii): Development

It was postulated that high commitment to codes will be associated with a particular approach to development in which the multiple stakeholders are involved (especially employees) and the code is customised to meet local requirements. In this section we look at several aspects of code development relevant to these issues:

- Whether a parent company exists, and if so also has a code
- When the code was established
- Whether the text of the code was customised or borrowed
- Which parties were involved in drafting the code
- Whether the code has been changed
- Why the code was introduced

Question 6 was designed to test the relationship between parent and subsidiary to see if the need for a code was translated throughout the organisation.

Q 6. Your relationship to your parent company is that:

a. We are the parent company
   We are not the parent company

b. Does your parent company have a code of ethics?

Table 6.6: Parent Company Status

<table>
<thead>
<tr>
<th>Parent Company Status</th>
<th>Code</th>
<th>%</th>
<th>No Code</th>
<th>%</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are the parent company</td>
<td>49</td>
<td>40.50%</td>
<td>93</td>
<td>64.58%</td>
<td>142</td>
<td>53.58%</td>
</tr>
<tr>
<td>Are not the parent company</td>
<td>70</td>
<td>57.85%</td>
<td>51</td>
<td>35.42%</td>
<td>121</td>
<td>45.66%</td>
</tr>
<tr>
<td>No Response</td>
<td>2</td>
<td>1.65%</td>
<td>0</td>
<td>0.00%</td>
<td>2</td>
<td>0.75%</td>
</tr>
</tbody>
</table>
Table 6.7: Does your Parent Company have a Code?

<table>
<thead>
<tr>
<th>Parent Company have a Code?</th>
<th>Code</th>
<th>%</th>
<th>No Code</th>
<th>%</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>58</td>
<td>82.86%</td>
<td>13</td>
<td>25.49%</td>
<td>71</td>
<td>58.68%</td>
</tr>
<tr>
<td>No</td>
<td>7</td>
<td>10.00%</td>
<td>16</td>
<td>31.37%</td>
<td>23</td>
<td>19.01%</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>5</td>
<td>7.14%</td>
<td>20</td>
<td>39.22%</td>
<td>25</td>
<td>20.66%</td>
</tr>
<tr>
<td>No Response</td>
<td>0</td>
<td>0.00%</td>
<td>2</td>
<td>3.92%</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td>Total (n=121)</td>
<td>70</td>
<td>100%</td>
<td>51</td>
<td>100%</td>
<td>121</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 6.6 shows the proportion of parent and non-parent companies with or without a code. The interesting group are those with a parent company. Of these 121 respondents, 70 had a code – the majority of these (58) belonging to a parent with a code. Conversely of the 51 subsidiaries without a code, the majority (36) had either a parent without a code, or did not know if the parent had a code. Table 6.7 shows that corporate parents do appear to influence whether or not their subsidiaries adopt codes of ethics.

Q 8. *In what year was the Code established?*

It was speculated in an earlier chapter of the thesis (Ch.1) that Australian interest in codes originated in the late 1980s and early 1990s. Question 8 was designed to obtain an accurate idea of the date of the introduction of the concept into Australia.

Table 6.8: Year Code Established

<table>
<thead>
<tr>
<th>Year of Code Establishment</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-95</td>
<td>56</td>
<td>46.28%</td>
</tr>
<tr>
<td>1985-90</td>
<td>13</td>
<td>10.74%</td>
</tr>
<tr>
<td>1980-84</td>
<td>6</td>
<td>4.96%</td>
</tr>
<tr>
<td>Pre 1980</td>
<td>6</td>
<td>4.96%</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>35</td>
<td>28.93%</td>
</tr>
<tr>
<td>No Response</td>
<td>5</td>
<td>4.13%</td>
</tr>
<tr>
<td>Total (n=121)</td>
<td>121</td>
<td>100%</td>
</tr>
</tbody>
</table>
The period of 1991 - 1995 is when 46.28% or 56 out of 121 codes were developed. From 1985 - 1990 another 13 codes or 10.74% were developed. However, it can not be disputed that there has been a definite ground swell in the establishment of codes in the 1990s.

Q 9. Was your Code:
   a. originally put together by your company from its own ideas without reference to any other code
   b. developed from an industry code
   c. adapted from another company’s code of ethics
   d. adapted from an association’s code of ethics

In the United States of America, the evolution of codes of ethics emanated from industry based codes (Ch.1). In Australia a number of industry codes have either been established or are being established in Banking, Franchising and Insurance (Ch.1). The research interest was an attempt to determine the roots of the movement within Australia to introduce codes. Furthermore, the interest was to examine whether the impetus for codes in Australia stemmed from similar beginnings as in the USA, or whether the Australian experience was different and unique.

By examining Table 6.9, one can see that in Australia the trend has been for companies to put together their own codes without reference to other organisations.

Table 6.9: Derivation of the Code

<table>
<thead>
<tr>
<th>Code Derivation</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originally done by us</td>
<td>51</td>
<td>42.15%</td>
</tr>
<tr>
<td>Developed from an industry code</td>
<td>15</td>
<td>12.40%</td>
</tr>
<tr>
<td>Adapted from another company’s code</td>
<td>18</td>
<td>14.88%</td>
</tr>
<tr>
<td>Adapted from an association’s code</td>
<td>3</td>
<td>2.48%</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>33</td>
<td>27.27%</td>
</tr>
<tr>
<td>No Response</td>
<td>1</td>
<td>0.83%</td>
</tr>
<tr>
<td>Total (n=121)</td>
<td>121</td>
<td>100%</td>
</tr>
</tbody>
</table>

This would appear to be a positive move. Murphy (1989) (Ch.1) believes that companies, in order to obtain the best effect from their codes should tailor them to the specific situations faced by their organisations. Later analysis in this
section will also show that companies that borrowed their codes from elsewhere did tailor it to their own situation.

The results for Questions 10 and 13 showed that those companies involved in establishing either their own code or using an industry code as a basis for their own code had based these codes on the views of senior staff. Customers were rarely consulted and the staff outside of senior management did not seem to play a large role within the establishment of the code. The initiatives and responsibility appear to rest with senior management as shown in Table 6.10.

Table 6.10: Groups Involved in the Establishment of the Code

<table>
<thead>
<tr>
<th>Involved in the Establishment</th>
<th>Own Code %</th>
<th>Industry Code %</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>(n=51)</td>
<td>(n=15)</td>
<td>(n=66)</td>
<td></td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>44</td>
<td>12</td>
<td>56</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>33</td>
<td>7</td>
<td>40</td>
</tr>
<tr>
<td>Senior Managers</td>
<td>44</td>
<td>14</td>
<td>58</td>
</tr>
<tr>
<td>Other Staff</td>
<td>16</td>
<td>5</td>
<td>21</td>
</tr>
<tr>
<td>Customers</td>
<td>3</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Don't Know</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>No Response</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>146</td>
<td>43</td>
<td>189</td>
</tr>
</tbody>
</table>

Note: This question permits a multiple response, therefore the total number of responses is greater than the number of returned questionnaires (n)

Aligned with the previous set of questions (Questions 10 and 13) are Questions 14, 20 and 25 (Table 6.11).

Table 6.11: Groups Involved in the Adoption of the Code

<table>
<thead>
<tr>
<th>Ind Code</th>
<th>%</th>
<th>Co. Code</th>
<th>%</th>
<th>Assoc Code</th>
<th>%</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>(n=15)</td>
<td>(n=18)</td>
<td>(n=3)</td>
<td>(n=36)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>12</td>
<td>80.00%</td>
<td>13</td>
<td>72.22%</td>
<td>1</td>
<td>33.33%</td>
<td>26</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>7</td>
<td>46.67%</td>
<td>8</td>
<td>44.44%</td>
<td>1</td>
<td>33.33%</td>
<td>16</td>
</tr>
<tr>
<td>Senior</td>
<td>12</td>
<td>80.00%</td>
<td>14</td>
<td>77.78%</td>
<td>2</td>
<td>66.67%</td>
<td>28</td>
</tr>
</tbody>
</table>
These questions examine the individuals involved in the adopting of the codes developed by industry, other companies or associations. As in Questions 10 and 13, the senior management of the organisation were mainly responsible for the adoption of the code.

This involvement of senior management should not necessarily be criticised. It may be their responsibility to fashion codes. However, one could follow the argument of Raiborn and Payne, (1990), Stead, Worrell and Stead, (1990), (Ch.1) who suggest that codes could be viewed as more relevant by all members of staff if everyone was involved in both the development and consultation process. Staff would then have a degree of ownership. The approach suggested is a participatory management approach.

As one can see from Table 6.12 (which covers Questions 15, 21, 26) each of the groups, regardless of origin of the code, displayed a tendency to modify it to suit their company’s needs. Even the industry code which had been developed jointly by the industry participants was modified to meet the company’s requirements.

Table 6.12: Changes to the Code Prior to Adoption

<table>
<thead>
<tr>
<th>When adopting</th>
<th>Ind Code</th>
<th>%</th>
<th>Co Code</th>
<th>%</th>
<th>Assoc Code</th>
<th>%</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adopt it exactly as it was</td>
<td></td>
<td>3</td>
<td>1</td>
<td>5.56%</td>
<td>1</td>
<td>33.33%</td>
<td>5</td>
<td>13.89%</td>
</tr>
<tr>
<td>Modify it to your company</td>
<td></td>
<td>6</td>
<td>12</td>
<td>66.67%</td>
<td>1</td>
<td>33.33%</td>
<td>19</td>
<td>52.78%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>0</td>
<td>1</td>
<td>5.56%</td>
<td>0</td>
<td>0.00%</td>
<td>1</td>
<td>2.78%</td>
</tr>
<tr>
<td>Don't Know</td>
<td></td>
<td>2</td>
<td>1</td>
<td>5.56%</td>
<td>1</td>
<td>33.33%</td>
<td>4</td>
<td>11.11%</td>
</tr>
<tr>
<td>No Response</td>
<td></td>
<td>4</td>
<td>3</td>
<td>16.67%</td>
<td>0</td>
<td>0.00%</td>
<td>7</td>
<td>19.44%</td>
</tr>
<tr>
<td>Total (n=)</td>
<td></td>
<td>15</td>
<td>18</td>
<td>100%</td>
<td>3</td>
<td>100%</td>
<td>36</td>
<td>100%</td>
</tr>
</tbody>
</table>
Listed in Table 6.13, which covers Questions 11, 16, 19, 24, were the reasons that each company used for the introduction of the code. For those companies that developed their own codes the two major reasons for code development were centred upon instilling company values, culture and philosophy and/or setting minimum staff behaviour standards. In the case of the industry based codes, the major reason was that it had been an industry initiative to which they had conformed.

Table 6.13: Reasons for the Introduction of a Code

<table>
<thead>
<tr>
<th>Reasons for the Introduction of a Code</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own Code</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need for Ethical Behaviour</td>
<td>9</td>
<td>17.65%</td>
</tr>
<tr>
<td>Minimum Staff Behaviour Standards</td>
<td>11</td>
<td>21.57%</td>
</tr>
<tr>
<td>Adherence to Policy, Procedures &amp; Objectives</td>
<td>4</td>
<td>7.84%</td>
</tr>
<tr>
<td>Instil Company Values &amp; Culture &amp; Philosophy</td>
<td>15</td>
<td>29.41%</td>
</tr>
<tr>
<td>Regulate Distributors &amp; Others</td>
<td>1</td>
<td>1.96%</td>
</tr>
<tr>
<td>Differentiate from Competitors</td>
<td>1</td>
<td>1.96%</td>
</tr>
<tr>
<td>Customer Expectations</td>
<td>1</td>
<td>1.96%</td>
</tr>
<tr>
<td>Protect against Legislative Requirements</td>
<td>1</td>
<td>1.96%</td>
</tr>
<tr>
<td>To Set Goals</td>
<td>1</td>
<td>1.96%</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>7.84%</td>
</tr>
<tr>
<td>Don't Know</td>
<td>3</td>
<td>5.88%</td>
</tr>
<tr>
<td>No Response</td>
<td>3</td>
<td>5.88%</td>
</tr>
<tr>
<td>Total (n=51)</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td>Industry Based Codes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guide Staff Conduct</td>
<td>3</td>
<td>20.00%</td>
</tr>
<tr>
<td>Considered an Appropriate Code</td>
<td>3</td>
<td>20.00%</td>
</tr>
<tr>
<td>Industry Initiative</td>
<td>6</td>
<td>40.00%</td>
</tr>
<tr>
<td>Government Pressure</td>
<td>2</td>
<td>13.33%</td>
</tr>
<tr>
<td>Promote Honesty and Integrity</td>
<td>1</td>
<td>6.67%</td>
</tr>
<tr>
<td>To Ensure Staff of Standard of Work Conditions</td>
<td>1</td>
<td>6.67%</td>
</tr>
<tr>
<td>Comply with Legal Requirements</td>
<td>1</td>
<td>6.67%</td>
</tr>
<tr>
<td>Don't Know</td>
<td>1</td>
<td>6.67%</td>
</tr>
<tr>
<td>No Response</td>
<td>1</td>
<td>6.67%</td>
</tr>
<tr>
<td>Total (n=15)</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Other Company Based Codes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good Starting Point</td>
<td>6</td>
<td>33.33%</td>
</tr>
<tr>
<td>Need for Ethical Behaviours</td>
<td>2</td>
<td>11.11%</td>
</tr>
<tr>
<td>Board Request/ Parent Request</td>
<td>3</td>
<td>16.67%</td>
</tr>
<tr>
<td>Standardised with Other Companies</td>
<td>3</td>
<td>16.67%</td>
</tr>
<tr>
<td>Time &amp; Effort Saved</td>
<td>3</td>
<td>16.67%</td>
</tr>
</tbody>
</table>
No Response | 2 | 11.11%
---|---|---
Total (n=18) | 19 |  

<table>
<thead>
<tr>
<th>Association Based Codes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Conform with market practice</td>
<td>1</td>
</tr>
<tr>
<td>Show commitment to best practice</td>
<td>1</td>
</tr>
<tr>
<td>Owned by Federal Government at time</td>
<td>1</td>
</tr>
<tr>
<td>Total (n=3)</td>
<td>3</td>
</tr>
<tr>
<td>Grand Total (n=87)</td>
<td>95</td>
</tr>
</tbody>
</table>

Note: This question permits a multiple response, therefore the total number of responses is greater than the number of returned questionnaires (n)

For those companies that adopted and adapted another company’s code, it was because the use of an existing code made it easier for them to establish their own code. Another related reason is that 3 respondents cited time and effort saved, which the researcher considers to be a complementary idea to the ‘good starting point’ concept. Each organisation that used an association’s code had been motivated by different reasons.

In the industry initiative segment, it is of interest to note that either government and or legislative intervention had been mentioned by a number of respondents. This point does highlight that governments can have some influence on enshrining codes in the market place (Ch.1).

Q 12, 17, 22, 27. How long did it take to develop the Code?

These questions were all the same. They were asked to test if there appeared to be any significant differences in the ways in which codes were adopted and the time lines to develop the codes under each of the four methods. There were no significant data to report.

Questions 18 and 23 examined the organisations from whom companies in the Other Company and Association categories adopted their codes. The data set generated was too small to merit discussion.

Questions 15a 21a and 26a asked respondents in the three categories, of Industry code, Other Company code and Association code, the ways in which they had changed the code to individualise it to their own organisations. Again, the data set generated was too small to merit discussion.
What does this data on code development show? Several findings deserve attention:

- The incidence of codes is highest where a parent company exists separately, and it has a code. This may be related to the effect (already noted) of overseas owners being more likely to have a code.

- Where date of introduction is established, most codes are new (less than five years old).

- Where the source of the code document is established, most codes are drafted internally, only about 2 in 5 owing their form to another company or an industry body.

- Code drafting and adoption are the preserve of CEO’s, Senior Managers and Boards of Directors. Lower staff and customers are rarely involved.

- Even when codes are borrowed, they are likely to be adapted to meet company needs.

- Reasons for introducing codes are most likely to reflect internal initiatives (instilling company values and guiding staff behaviour) rather than conforming to industry or parent company standards and practices.

Despite the apparent influence of parent companies and industry practices over the decision to adopt codes, it seems that deeper commitment is generally evident in the willingness of Senior Managers and Directors to devote time to developing or adapting codes of ethics. It would appear that other stakeholders (employees and customers) are not given the opportunity to participate in the process.

6.4 Commitment to Codes (iii): Implementation

Commitment to codes can be shown in the way they are implemented. There are several aspects to this. Most important are the following:

- Communication to employees
• Inclusion in induction process
• Enforcement/punishment for breach
• Criterion in appraisal
• Protection for ‘whistleblowers’
• Use in strategic planning
• Use of Standing Ethics Committee
• Ethics training
• Ethics Ombudsman
• Ethical audit

Implementation can be either: (a) through adaption of existing processes such as induction, appraisal and strategic planning, or (b) the creation of new ‘ethics specific’ processes such as whistleblower protection programs, standing ethics committees, ombudsmen, and ethics training and audit.

Let us begin with the questions concerning the display, communication and induction to ethical issues by the organisation. These three questions in this area were designed to examine the methods used by companies to highlight to their stakeholders and to their individual employees the existence of a company code (Ch.5).

Q 28. How is the Code displayed in your organisation?
Q 29. How is the Code communicated to your organisation’s workers?
Q 30. How does your company induct new staff re the Code?

Table 6.14: How is the Code Displayed in your Organisation?

<table>
<thead>
<tr>
<th>Type of Display</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Report</td>
<td>4</td>
<td>3.31%</td>
</tr>
<tr>
<td>Brochures in All Outlets</td>
<td>5</td>
<td>4.13%</td>
</tr>
<tr>
<td>Company Letterheads</td>
<td>1</td>
<td>0.83%</td>
</tr>
<tr>
<td>Industry Accredited Signage</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td>Notice Boards</td>
<td>8</td>
<td>6.61%</td>
</tr>
<tr>
<td>On Business Cards</td>
<td>3</td>
<td>2.48%</td>
</tr>
<tr>
<td>Wall Plaques &amp; Posters</td>
<td>29</td>
<td>23.97%</td>
</tr>
<tr>
<td>Wrong Conceptual Understanding</td>
<td>74</td>
<td>61.16%</td>
</tr>
<tr>
<td>Don't Know</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td>No Response</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td><strong>Total (n=121)</strong></td>
<td>130</td>
<td></td>
</tr>
</tbody>
</table>
The Australian Situation: An Analysis of the Results

Note: This question permits a multiple response, therefore the total number of responses is greater than the number of returned questionnaires (n)

The responses to Question 28 revealed that Wall Plaques and Posters (23.79%) were the most used ways of displaying the code in the organisation for people to see and to view. The fact that the concept of display was not understood by 74/121 (61.16%) of respondents may suggest that displaying of the code is not a common practice.

Question 29 specifically focussed on the ways in which the code was communicated to the organisation’s employees.

Table 6.15: How is the Code Communicated to your Organisation’s Workers?

<table>
<thead>
<tr>
<th>Communication Method</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Booklet</td>
<td>70</td>
<td>57.85%</td>
</tr>
<tr>
<td>Contract of Employment</td>
<td>15</td>
<td>12.40%</td>
</tr>
<tr>
<td>Electronic Communication</td>
<td>8</td>
<td>6.61%</td>
</tr>
<tr>
<td>Induction</td>
<td>14</td>
<td>11.57%</td>
</tr>
<tr>
<td>Internal Publications: Bulletins/Newsletter</td>
<td>17</td>
<td>14.05%</td>
</tr>
<tr>
<td>Meeting of Staff</td>
<td>9</td>
<td>7.44%</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>5.79%</td>
</tr>
<tr>
<td>Standard Company Policy Manual</td>
<td>19</td>
<td>15.70%</td>
</tr>
<tr>
<td>Training in it</td>
<td>13</td>
<td>10.74%</td>
</tr>
<tr>
<td>Verbal</td>
<td>9</td>
<td>7.44%</td>
</tr>
<tr>
<td>Video</td>
<td>6</td>
<td>4.96%</td>
</tr>
<tr>
<td>Sub-total: Communication Method</td>
<td>187</td>
<td>95.05%</td>
</tr>
<tr>
<td>No Communication Method Shown</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not Done</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td>No Response</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td>Sub-total: No Communication Method</td>
<td>6</td>
<td>4.95%</td>
</tr>
<tr>
<td>Total (n=121)</td>
<td>193</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: This question permits a multiple response, therefore the total number of responses is greater than the number of returned questionnaires (n)

The range of responses in this question was wide. The major means of communication to employees is through the use of a booklet about and/or containing the code (57.85%). There were a number of methods used that were of interest and showed that some companies had used some innovative ways in disseminating this information. The use of video and electronic
communication appeared to be an interesting means of communicating with employees. Electronic communication is an excellent idea because it is hoped the employees would be able to interact with both the information and the sender to seek clarification of concerns more easily than they could by relying on printed material only.

Two companies replied that the code was not communicated to their employees. Obviously, it would appear to contradict the ethos and the philosophy for an organisation to have a code if one does not inform one’s workers of the existence of a company code. Also it would appear to be impossible for them to act in accordance with the standards of behaviour that the company expects, if they aren’t aware of the existence of the code. Unfortunately, an explanation was not proffered by either respondent as to the reason or reasons for this situation, even though in the questionnaire there was room provided to embellish one’s answer.

Question 30 examined the use of the induction process to expose new employees to the code of the organisation.

Table 6.16: How does your Company Induct New Staff in Respect to the Code?

<table>
<thead>
<tr>
<th>Staff Induction Method</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copy Issued</td>
<td>55</td>
<td>45.45%</td>
</tr>
<tr>
<td>Interviews for New Senior Managers</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td>Part of Employment Acceptance Letter</td>
<td>9</td>
<td>7.44%</td>
</tr>
<tr>
<td>Policy Manual</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td>Training &amp; Discussion</td>
<td>63</td>
<td>52.07%</td>
</tr>
<tr>
<td>Sub-total: Induction Method</td>
<td>131</td>
<td>92.57%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No Staff Induction Method Shown</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don’t Know</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td>No Induction Programme</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td>No Response</td>
<td>5</td>
<td>4.13%</td>
</tr>
<tr>
<td>Sub-total: No Induction Method Shown</td>
<td>9</td>
<td>7.43%</td>
</tr>
<tr>
<td>Total (n=121)</td>
<td>140</td>
<td></td>
</tr>
</tbody>
</table>

Note: This question permits a multiple response, therefore the total number of responses is greater than the number of returned questionnaires (n)

The major way of inducting new staff is to issue a copy of the booklet containing the code and then to have some training and discussion in the subject area. Companies that answered positively about training and
discussion often linked it with the issuing of a book. One respondent highlighted that the training involved with their organisation was in “the form of an orientation module”. Another respondent specifically stated that “a workbook on the subject is used”. The use of training and discussion is a preferred option to just distributing a booklet containing the code. At the beginning of a period of new employment in an organisation, an employee may often tend to suffer information overload due to trying to understand the organisation that they have just joined. If a booklet was merely issued without specific discussion this would relegate the code to the status of just another handout. Unless the importance of the code is emphasised the new employee may not consider it as being as important as the organisation no doubt had intended it to be. Hence, it may become just another piece of information along with other documents that are distributed at this time. The impact that the company wants the code to make upon the employee may be lost because the attention required for its assimilation is not given at the time of induction.

Q 31. Are there consequences for a breach of the Code?

Sims, (1991), Fraedrich, (1992) and Stoner, (1989), and Hegarty and Sims, (1979) (Ch.4) all suggest that within a code of ethics one should outline enforcement provisions for those individuals who may not uphold the code. The organisation, by having procedures for a breach of the code, signals to employees the necessity to abide by the code for the sake of both themselves and the organisation.

The problem with this line of argument is that there could be a debate about the need to have punitive measures spelt out within the code for the organisation’s workers: this becomes controversial. If the document is intended to guide ethical behaviour throughout the organisation, then, as one respondent contended, their organisation will require people to participate freely, because they should see the inherent benefits of the code, rather than using compulsion as a means of ensuring compliance. Hence, as the respondent pointed out, the use of breach provisions would be contrary to the spirit of having a code.

Table 6.17: Consequences for a Breach of the Code

<table>
<thead>
<tr>
<th>Consequences for a Breach</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>101</td>
<td>83.47%</td>
</tr>
</tbody>
</table>
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The responses, however, for the consequences for staff breaches of the code were very definite in their attention to staff behaviour in this situation. A ‘Yes’ response was received from 101/121 (83.47%). The overwhelming majority of companies, therefore, do have consequences for a breach of the code.

The second part of this question asked the companies to clarify the nature of the consequences of the breach.

Table 6.18: Actual Actions Taken for a Breach of the Code

<table>
<thead>
<tr>
<th>Actions Taken for a Breach</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cessation of Employment</td>
<td>68</td>
<td>67.33%</td>
</tr>
<tr>
<td>Demotion</td>
<td>20</td>
<td>19.80%</td>
</tr>
<tr>
<td>Formal Reprimand</td>
<td>68</td>
<td>67.33%</td>
</tr>
<tr>
<td>Legal Action</td>
<td>37</td>
<td>36.63%</td>
</tr>
<tr>
<td>Monetary Fine</td>
<td>5</td>
<td>4.95%</td>
</tr>
<tr>
<td>Verbal Warning</td>
<td>81</td>
<td>80.20%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-total: Actions for a Breach</td>
<td>279</td>
<td>88.12%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No Actions for a Breach Shown</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>7</td>
<td>6.93%</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>4.95%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-total: No Actions for a Breach Shown</td>
<td>12</td>
<td>11.88%</td>
</tr>
<tr>
<td>Total (n=101)</td>
<td>291</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: This question permits a multiple response, therefore the total number of responses is greater than the number of returned questionnaires (n)

The three areas attracting the most responses were: a verbal warning (80.20%), a formal reprimand (67.33%) and cessation of employment (67.33%). Companies were prepared to take the ultimate step of removing an offender from the organisation if the breach had been serious enough. Legal action could be a part of the consequences for 36.63% of companies. These figures do show that often behaviour that may originally be perceived as unethical can cross into the sphere of illegality. Companies would be willing to pursue staff who may transgress against the organisation in this manner. The use of a monetary fine as a penalty was extremely limited with only 5/101 respondents (4.95%) providing for this.
The responses in the category labelled ‘Other’ were varied. Three of the five respondents in this category said that their organisations had a counselling procedure. Another organisation, that also used counselling, used it as the first stage in a multi-stage process. The subsequent stages were: first warning; second warning; and then dismissal. One company suggested that they would train the person and assist that person’s rehabilitation. Another respondent organisation would transfer the person to other duties or even remove them from the location at which the breach had occurred.

As highlighted at the start of Question 31, there was, in the second part of this question, another company that answered in the negative to having consequences for a breach of the code. If one can be emphatic in the written word, then this respondent certainly was. The philosophy of the company in which this respondent worked did not necessitate a breach of consequences provision in the code. The respondent believed that it was an anathema to the philosophical basis for having a code in the first place.

**Q 32. Is an employee’s ethical performance a criterion for employee appraisal?**

This question was asked to see whether or not organisations in Australia had attempted to assess an employee’s ethical performance as a part of the employee appraisal system (Ch.5).

<table>
<thead>
<tr>
<th>A Criterion for Employee Appraisal</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>84</td>
<td>69.42%</td>
</tr>
<tr>
<td>No</td>
<td>30</td>
<td>24.79%</td>
</tr>
<tr>
<td>No Response</td>
<td>7</td>
<td>5.79%</td>
</tr>
<tr>
<td><strong>Total (n=121)</strong></td>
<td><strong>121</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The response to this question is that more companies who have codes do assess an employee’s ethical performance 84/121 (69.42%) than those that do not assess it. Employees are made accountable for their actions in this area by their employers. In any review and assessment of employee performance one needs to try to attempt to be as objective as possible. By the nature of the task itself, it would not be an easy assessment procedure to make judgments of individual ethical performance. Company standards and procedures need to be spelt out for individuals who are involved in the assessment process.
Question 32 establishes not only the rate of assessment, but the second part of the question determines upon whom the responsibility falls when the said assessment is to be made.

The point of interest in the next table, Table 6.20, is that superiors are the ones who make the assessment.

Table 6.20: How is that Ethical Performance Evaluated?

<table>
<thead>
<tr>
<th>Ethical Performance Evaluation</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Against Formal Company Standards</td>
<td>31</td>
<td>36.90%</td>
</tr>
<tr>
<td>Review by Peers</td>
<td>14</td>
<td>16.67%</td>
</tr>
<tr>
<td>Review by Subordinates</td>
<td>12</td>
<td>14.29%</td>
</tr>
<tr>
<td>Review by Superiors</td>
<td>68</td>
<td>80.95%</td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
<td>3.57%</td>
</tr>
<tr>
<td>No Response</td>
<td>3</td>
<td>3.57%</td>
</tr>
<tr>
<td><strong>Total (n=84)</strong></td>
<td>131</td>
<td></td>
</tr>
</tbody>
</table>

Note: This question permits a multiple response, therefore the total number of responses is greater than the number of returned questionnaires (n)

It is, of course, the role of the supervisor to ensure that staff performance is adequate. However, both Baumhart’s 1961 study (Ch.4) and Brenner and Molander’s 1976, but published in 1977, replication study (Ch.4) found that superiors were the main causes of employee anguish in respect to being asked by superiors to perform unethical acts. This may enable superiors to mask the situation within their own departments. Also it flags to all staff in the organisation that the ability to judge ethical behaviour is the prerogative of one’s management position. Some companies do incorporate a review by peers 14/84 (16.67%) and a review by subordinates is also practised by 12/84 (14.29%). It is of interest that only 31/84 (36.90%) of companies judge ethical performance against formal company standards. If there were no formal standards in 63.10% of companies then against what criteria would the assessment of staff performance be compared? Employee appraisal is an area in which one must try to be as objective as possible. However, not having formal guidelines for appraisal places both the supervisor and the subordinate in an extremely invidious position. Each could suffer through the assessment which may adversely affect them: neither party can compare with formal guidelines to either substantiate nor refute the assessment. One way of mitigating this
superior/subordinate divide is to use a procedure such as one respondent organisation uses. This company gives the employee the ability to do a self-assessment of their ethical behaviour during the past year. This procedure may at least provide a starting point from which both parties in the assessment process can develop a discussion.

An interesting response was made to this question by one respondent who suggested that his company had not specifically assessed the ethical performance of individuals because it was not deemed to be necessary and because it was done as a normal part of the yearly assessment process. The respondent believed that the employee selection process in his company had been so rigorous that the individuals employed were deemed to be either ethical or else they would not have been selected. This attitude reflects Sims’ views (1991) (Ch.4) that suggests that the employee, at the time of hiring, should be assessed from an ethical perspective. Whilst one could not categorically state from the response, that ethical consideration of the applicant ought to be specifically considered, the tenor of the comments suggests that the profile of an individual who had been successful in securing employment with this organisation would naturally be an ethical individual. This is an admirable view to take but one wonders about its validity and reliability as a selection tool.

Q 33. Do you have formal guidelines for the support of whistleblowers?

The researcher was interested in this area because if organisations are going to expect ethical behaviour from their employees then whistleblowing should be considered by the organisation. It should be considered because if standards are to be set then one needs ways to ensure that either violations or breaches will be reported, reviewed and corrected. The researcher (Ch.5) felt that the concept of whistleblowing may run contrary to the Australian cultural value system of ‘don’t dob in your mates’. The researcher was fascinated to see that one respondent to this question actually cited the fact that their organisation did not have a procedure for whistleblowing but that it was probably against the Australian value of “don’t dob in your mates”.

One point linked to the whistleblowing concept became obvious to the researcher, only after reading the codes for an analysis of the content contained within them. In the codes of ethics sent by the respondents 43.4% required staff
to report breaches of the code where they had observed such behaviour i.e. whistleblowing. Hence if 43.4% of codes had demanded that an employee act as a whistleblower (Ch.7), then the organisations should have considered the provisions necessary to facilitate this situation.

Table 6.21: Guidelines to Support Whistleblowers

<table>
<thead>
<tr>
<th>Guidelines to Support Whistleblowers</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>31</td>
<td>25.62%</td>
</tr>
<tr>
<td>No</td>
<td>83</td>
<td>68.60%</td>
</tr>
<tr>
<td>No Response</td>
<td>7</td>
<td>5.79%</td>
</tr>
<tr>
<td>Total (n=121)</td>
<td>121</td>
<td>100%</td>
</tr>
</tbody>
</table>

Only 25.62% of respondents gave a ‘Yes’ response to having guidelines to support whistleblowers. It would appear that there appears to be a mismatch between expectations of those employees: to report ethical infractions of other employees and on the other hand, expectations of organisations to the procedures that should be used to facilitate such practices. Bearing in mind the risk run by whistleblowers (Ch.5), it would seem that current company provisions do not assist to give either confidence or protection to an individual who may wish to report an issue of concern.

Of the companies that did have whistleblowing procedures the second part of Question 33 revealed the frequency of the procedures in place.

Table 6.22: Procedures to Protect and Deal with Whistleblowing

<table>
<thead>
<tr>
<th>Procedures to Protect and Deal</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal Channel of Complaint</td>
<td>20</td>
<td>64.52%</td>
</tr>
<tr>
<td>Formal Investigation Process</td>
<td>12</td>
<td>38.71%</td>
</tr>
<tr>
<td>Formal Resolution Process</td>
<td>13</td>
<td>41.94%</td>
</tr>
<tr>
<td>Guaranteed Confidentiality</td>
<td>20</td>
<td>64.52%</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>3.23%</td>
</tr>
<tr>
<td>No Response</td>
<td>4</td>
<td>12.90%</td>
</tr>
<tr>
<td>Don't Know</td>
<td>1</td>
<td>3.23%</td>
</tr>
<tr>
<td>Total (n=31)</td>
<td>71</td>
<td></td>
</tr>
</tbody>
</table>
It is pleasing to see that those surveyed organisations that supported whistleblowing did appear to guarantee confidentiality and did provide a formal channel for complaints. However, the concern of the researcher centres on the ad hoc nature of the formal investigation and resolution procedures. Informal processes can often lack specific and consistent guidelines: therefore accountability in case the process is unsatisfactory or goes wrong for the parties concerned.

Q 34. How often does your company examine, discuss and revise the Code?

Codes should not be static documents but should be revised periodically in order to reflect the changing expectations of society and the practices of businesses (Ch.5).

The results from Table 6.23 show that 44/121 (36.37%) companies have nominated a time period for code revision.

Table 6.23: Frequency of Code Examination, Discussion and Revision

<table>
<thead>
<tr>
<th>Code Examination, Discussion and Revision</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1 year</td>
<td>8</td>
<td>6.61%</td>
</tr>
<tr>
<td>1 year to 2 years</td>
<td>26</td>
<td>21.49%</td>
</tr>
<tr>
<td>&gt; 2 years</td>
<td>10</td>
<td>8.26%</td>
</tr>
<tr>
<td>Sub-total: Period of Time Nominated</td>
<td>44</td>
<td>36.37%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No Period of Time Nominated</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>As needed</td>
<td>37</td>
<td>30.58%</td>
</tr>
<tr>
<td>Not Formalised</td>
<td>10</td>
<td>8.26%</td>
</tr>
<tr>
<td>Rarely</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td>Don't do it</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td>Don't Know</td>
<td>6</td>
<td>4.96%</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>5.79%</td>
</tr>
<tr>
<td>No Response</td>
<td>13</td>
<td>10.74%</td>
</tr>
<tr>
<td>Sub-total: No Period of Time Nominated</td>
<td>77</td>
<td>63.63%</td>
</tr>
<tr>
<td>Total (n=121)</td>
<td>121</td>
<td>100%</td>
</tr>
</tbody>
</table>

The reliance on what one could call an ad hoc process of review and reassessment by 63.63% of companies who have a code, could be seen to bring
into question the degree of commitment to the process by companies that have not factored a review into their planning processes. In defence of the ad hoc approach, organisations could argue that the review procedure occurs constantly due to current developments in the market place. One could also say that just because an organisation professes a commitment to review regularly its code, that in itself does not guarantee a thorough process of review.

Q 35. Does your company use its Code of Ethics to guide its Strategic Planning?

The researcher’s purpose in asking this question was to test the link between the code and its use in the strategic planning process. The assumption was that this concept would not have been considered by Australian organisations (Ch.5).

Table 6.24: Code of Ethics and Strategic Planning

<table>
<thead>
<tr>
<th>Code of Ethics and Strategic Planning</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>55</td>
<td>45.45%</td>
</tr>
<tr>
<td>No</td>
<td>41</td>
<td>33.88%</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>20</td>
<td>16.53%</td>
</tr>
<tr>
<td>No Response</td>
<td>5</td>
<td>4.13%</td>
</tr>
<tr>
<td>Total (n=121)</td>
<td>121</td>
<td>100%</td>
</tr>
</tbody>
</table>

The researcher was surprised with the finding that 55/121 companies (45.45%) did use the code to guide their strategic planning. There was a large ‘Don’t Know’ response of 20/121 (16.53%). The figure of 45.45% was a higher figure than the researcher expected based on the understanding of the Australian situation prior to conducting the survey. The organisations that answered the second part of Question 35, as shown in Table 6.25, made extensive use of the code in the strategic planning process.

Table 6.25: Code Usage in the Strategic Planning Process

<table>
<thead>
<tr>
<th>Code Usage in the Strategic Planning Process</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process includes 2,3,4, listed below</td>
<td>15</td>
<td>27.27%</td>
</tr>
<tr>
<td>The Code is the basis of the Planning Philosophy</td>
<td>15</td>
<td>27.27%</td>
</tr>
</tbody>
</table>
The Code is consulted during the Planning Process | 17 | 30.91%
The Finished Plan is compared against the Code | 7 | 12.73%
Others | 1 | 1.82%
No Response | 6 | 10.91%

Total (n=55) | 61

Note: This question permits a multiple response, therefore the total number of responses is greater than the number of returned questionnaires (n)

This question produced some interesting responses. One respondent claimed that his company would “no more consider unethical behaviour than we would consider coming to work without our clothes on”. For them the code was bound up in all their activities especially when they were doing their strategic planning. Another company, that operates internationally, expressed the sentiment that they consider ethical considerations as a key factor in the selection of the countries in which they intend to invest. One respondent linked the code to strategic planning and the company mission statement. The company uses its mission statement and its code of ethics when deciding upon the strategic plans for its group operating units. All of its operations must keep in mind, when making decisions, the interrelationship between the three areas of mission statement, code and strategic initiatives.

Q 36. Does your company have a standing ethics committee or its equivalent?

This question was asked to see whether this concept, which is used in US companies and recommended by US writers, has actually been incorporated by companies operating in Australia (Ch.5).

Table 6.26: The Existence of a Standing Ethics Committee or its Equivalent

<table>
<thead>
<tr>
<th>Standing Ethics Committee or its Equivalent</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>31</td>
<td>25.62%</td>
</tr>
<tr>
<td>No</td>
<td>86</td>
<td>71.07%</td>
</tr>
<tr>
<td>No Response</td>
<td>4</td>
<td>3.31%</td>
</tr>
<tr>
<td>Total (n=121)</td>
<td>121</td>
<td>100%</td>
</tr>
</tbody>
</table>

The use of a standing ethics committee or its equivalent was adopted by 31/121 (25.62%) of the respondents. Just under three quarters of the respondents did not have a standing ethics committee.
Q 37. *Does your company have an ethics training committee or its equivalent?*

Q 38. *Is ethics training conducted for the staff of your organisation?*

These two questions were linked from a theoretical perspective because of the researcher’s belief that one can not just expect individuals to be ethical to the level of company expectations without having some involvement with training. An ethics training committee would, one should expect, provide the direction and initiative to expose employees to discussion and education in ethics, in business situations which they may face whilst in the company’s employ (Ch.5).

Table 6.27: The Existence of an Ethics Training Committee or its Equivalent

<table>
<thead>
<tr>
<th>Ethics Training Committee or its Equivalent</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>18</td>
<td>14.88%</td>
</tr>
<tr>
<td>No</td>
<td>98</td>
<td>80.99%</td>
</tr>
<tr>
<td>No Response</td>
<td>5</td>
<td>4.13%</td>
</tr>
<tr>
<td><strong>Total (n=121)</strong></td>
<td>121</td>
<td>100%</td>
</tr>
</tbody>
</table>

The existence of an ethics training committee or its equivalent is acknowledged by 18/121 (14.88%) of respondents. A designated committee set up for the specific purpose of ethics training and the discussion of relevant issues, the researcher contends, should reinforce for the employees the sincerity of the organisation in pursuing ethical principles. This figure therefore, appears to be low.

In respect of the incidence of training within the organisation, the figure is higher than other positive responses in Section D. It can be seen that 40/121 (33.06%) of companies conduct ethics training for the staff.

Table 6.28: The Existence of Ethics Training

<table>
<thead>
<tr>
<th>Ethics Training</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>40</td>
<td>33.06%</td>
</tr>
<tr>
<td>No</td>
<td>75</td>
<td>61.98%</td>
</tr>
<tr>
<td>No Response</td>
<td>6</td>
<td>4.96%</td>
</tr>
<tr>
<td><strong>Total (n=121)</strong></td>
<td>121</td>
<td>100%</td>
</tr>
</tbody>
</table>

However, the researcher is concerned that this figure may not reflect completely the true nature of the situation. The researcher when constructing the question
omitted to word the question as specifically as should have been done. The issue that the researcher wanted to examine was the post induction level of ongoing training. If one compares the answers in Question 30 one finds that 63/121 of respondents (52.07%) have ethics training and discussion during the induction process. Whilst the figure is lower for Question 38 (33.06%) the researcher wonders how many companies may have responded to the question on training in respect to the induction training that may occur? Therefore employees may only be exposed to training at the commencement of their time with the company. Without subsequent reinforcement and discussion, once they have worked for the organisation, and so that they can appreciate more fully the ethical dilemmas faced on a daily basis, the intent of having a code may be at best devalued and at worst lost.

Q 39.  Does your company have an ethics ombudsman or its equivalent?

This question is related to Question 33 on whistleblowing. If an organisation has a person designated as a confidante to whom staff can go with ethical concerns then hopefully employees will be encouraged to volunteer information about unethical practices that they perceive are detrimental to the organisation.

Table 6.29: The Existence of an Organisational Ombudsman or its Equivalent

<table>
<thead>
<tr>
<th>Organisational Ombudsman or its Equivalent</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>24</td>
<td>19.83%</td>
</tr>
<tr>
<td>No</td>
<td>91</td>
<td>75.21%</td>
</tr>
<tr>
<td>No Response</td>
<td>6</td>
<td>4.96%</td>
</tr>
<tr>
<td>Total (n=121)</td>
<td>121</td>
<td>100%</td>
</tr>
</tbody>
</table>

Only 24/121 (19.83%) of companies have such a person to whom staff can go with their ethical concerns. This links with Question 33 where only 25.62% of companies had procedures in place for whistleblowing. It appeared that both formal investigation and formal resolution processes seemed not to be considered by organisations. If the role of an ombudsman is set up with the specific purpose of protecting whistleblowers and resolving the concerns that they raise, then the organisation would not only have ethical guidelines, but they may be able to see the actual implementation come to fruition.
One respondent highlighted that their organisation did not have one individual but, “delegated contact points for staff”. From the further explanation provided by the respondent, the researcher took this response to mean that the organisation, whilst it did not have one person singled out for the role associated with being the ombudsman, it did have a range of individuals throughout the organisation who could be used in this role to facilitate similar outcomes to that of the ombudsman. This is an interesting approach in that it does not vest all of the responsibility in one person. If the person selected to be the ombudsman turns out not to be suitable for the position, then the vesting of power and authority in one individual could be counter-productive to the need for the role of an ombudsman in the first place. Hence, multiple contact points could be an extremely viable alternative to the central concept of the ombudsman.

Q 40. *Does your company conduct an ethical audit of its operations?*

Organisations use audits in various facets of their operations in order to monitor the adherence to company policies and guidelines. Ethics should be one such area in which audits could be used to determine if employees are following the company policy (Ch.5).

Table 6.30: The Existence of an Ethical Audit

<table>
<thead>
<tr>
<th>Existence of an Ethical Audit</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>46</td>
<td>38.02%</td>
</tr>
<tr>
<td>No</td>
<td>65</td>
<td>53.72%</td>
</tr>
<tr>
<td>No Response</td>
<td>10</td>
<td>8.26%</td>
</tr>
<tr>
<td><strong>Total (n=121)</strong></td>
<td>121</td>
<td>100%</td>
</tr>
</tbody>
</table>

In this question the responses were not as overwhelmingly in the negative as in the other questions in this section. The positive response was 46/121 companies (38.02%) which shows that many companies appear to be monitoring the ethical nature of their business.

One respondent said that their organisation requires “annual compliance sign offs”. This is an excellent idea because it personalises the commitment to the company values at least on an annual basis. It also means that individuals must assess their own performance and rationalise it. Of course, this practice could be devalued if the sign off procedure is treated as just another piece of paper
crossing the employee’s desk and hence the individual pays minimal consideration to its ethos and content.

In this section we have reviewed ethics implementation methods amongst the survey respondents with codes. The principal findings are as follows:

- Written communication is extensive - mainly through booklets and policy manuals, though more ephemeral publications are not infrequent.
- Induction training introduces codes of ethics to perhaps half of the sample, the others relying on written information for new employees.
- Codes of ethics are almost always integrated with disciplinary processes.
- Codes of ethics are integrated with appraisal in more than 2/3rds of companies with codes.
- About half the companies with codes make use of them in strategic planning.

These findings show that code implementation is extensive (though not universal) through existing processes such as induction, discipline, appraisal and planning, but what of ‘ethics’ specific processes: do firms implement these? The following findings are relevant:

- About a quarter of firms with codes provide ‘whistleblower’ support.
- About a quarter have an ethics standing committee.
- About 15% provide a separate ethics training committee, although a third give ethics training.
- One in five (19.8%) have an organisational ombudsman.
- Two in five (38%) have an ethics audit.

The point is clear: implementation of ethics codes is far more likely to occur through the adaption of existing processes (induction, training, appraisal, and planning) than through the creation of new processes. Such behaviour should not be read to signify low commitment to ethics codes. Rather it may signify a pragmatic approach to their workability. If separated from mainstream processes, it is possible that they may be under-resourced and fail. If integrated with mainstream processes, resourcing and acceptance will be favoured. However, those firms (about a quarter of survey respondents) who have constructed ‘ethics specific’ implementation processes have probably demonstrated a higher level of commitment than those who have not.
6.5 Commitment to Codes (iv): Communication

Communication is an important element of commitment. The more a code of ethics is imparted to internal and external stakeholders, the stronger will be its influence in the relationships with those stakeholders. Three aspects of communication concern us:

- Communication with employees
- Communication with customers
- Communication with suppliers

Survey respondents were advised to estimate the extent to which these stakeholders knew of the existence of codes. It is important to recognise that the data here shows the estimates of survey respondents who are managers in the organisation, not themselves lower ranked employees, customers or suppliers. We have no data from these sources. This introduces a possibility of response bias in which the respondent exaggerates the extent of communication.

Communication with employees was reported in s.6.3 above. We report here evidence on communication with customers and suppliers. Several questions were put evaluating communication with customers.

Q 41. Are your customers informed of the existence of the Code?
Q 42. Are your suppliers informed of the existence of the Code?

Table 6.31: Customer Knowledge of the Existence of the Code

<table>
<thead>
<tr>
<th>Customer Knowledge of the Existence of the Code</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>59</td>
<td>48.76%</td>
</tr>
<tr>
<td>No</td>
<td>44</td>
<td>36.36%</td>
</tr>
<tr>
<td>Don't Know</td>
<td>13</td>
<td>10.74%</td>
</tr>
<tr>
<td>No Response</td>
<td>5</td>
<td>4.13%</td>
</tr>
<tr>
<td>Total (n=121)</td>
<td>121</td>
<td>100%</td>
</tr>
</tbody>
</table>

The ‘Yes’ response (48.76%) to Question 41 was more than the ‘No’ response (36.36%). However, there was a large (10.74%) response in the ‘Don’t Know’ category. The second part of this question asked how the customers were informed of the code when the company did communicate it.
There was a tendency towards informal advice (Table 6.32). The reliance on informal methods again raises the issue of an ad hoc approach. Surveyed companies can not be sure that the company’s ethics policy is being communicated to customers.

Table 6.32: How is the Code Communicated to Customers?

<table>
<thead>
<tr>
<th>Code Communicated to Customers</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal Company Advice</td>
<td>26</td>
<td>44.07%</td>
</tr>
<tr>
<td>Informally</td>
<td>29</td>
<td>49.15%</td>
</tr>
<tr>
<td>Others</td>
<td>8</td>
<td>13.56%</td>
</tr>
<tr>
<td>No Response</td>
<td>2</td>
<td>3.39%</td>
</tr>
<tr>
<td><strong>Total (n=59)</strong></td>
<td><strong>65</strong></td>
<td></td>
</tr>
</tbody>
</table>

Note: This question permits a multiple response, therefore the total number of responses is greater than the number of returned questionnaires (n)

Table 6.33: Supplier Knowledge of the Existence of the Code

<table>
<thead>
<tr>
<th>Supplier Knowledge of the Existence of the Code</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50</td>
<td>41.32%</td>
</tr>
<tr>
<td>No</td>
<td>44</td>
<td>36.36%</td>
</tr>
<tr>
<td>Don't Know</td>
<td>21</td>
<td>17.36%</td>
</tr>
<tr>
<td>No Response</td>
<td>6</td>
<td>4.96%</td>
</tr>
<tr>
<td><strong>Total (n=121)</strong></td>
<td><strong>121</strong></td>
<td>100%</td>
</tr>
</tbody>
</table>

One observation upon Table 6.33 is that formal company advice to suppliers was used more than informal methods. In fact, depending on the audience, there is a slight change in the approach to communicating the company’s ethics code. Formal communication to suppliers is more likely than to customers.

Table 6.34: How is the Code Communicated to Suppliers?

<table>
<thead>
<tr>
<th>Code Communicated to Suppliers</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal Company Advice</td>
<td>29</td>
<td>58.00%</td>
</tr>
<tr>
<td>Informally</td>
<td>20</td>
<td>40.00%</td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
<td>6.00%</td>
</tr>
<tr>
<td>No Response</td>
<td>2</td>
<td>4.00%</td>
</tr>
<tr>
<td><strong>Total (n=50)</strong></td>
<td><strong>54</strong></td>
<td></td>
</tr>
</tbody>
</table>
Note: This question permits a multiple response, therefore the total number of responses is greater than the number of returned questionnaires (n)

Could this difference arise because the position of control in the relationship is different? When organisations are in control of the suppliers and the suppliers have to meet the organisations’ expectations definite formal company advice is given to control suppliers’ practices. However, when the organisation is not in control of the customer, the organisation does not profess as openly as it could, its own ethical standards. The reason for this difference could be from fear that the customers may perceive and pursue a breach between the principle of the code and the practice of the company.

To summarise, the data on code communication shows the following:

- Communication with internal stakeholders tends to be universal, although variable in format and (perhaps) effectiveness. Written communication through booklets is very common; communication through training and induction is also widespread and extends to perhaps half the firms.

- Communication with customers is fairly widespread (48.7% of respondents, and 57.3% of those with a definite response). The numbers divided fairly evenly between formal and informal communication.

- Similarly, more than half of the respondents with codes notify suppliers, about 60% of these gaining formal advice.

Overall, the incidence of external communication is lower than the incidence of internal communication, suggesting some half-heartedness. It is almost axiomatic that employees will be informed of ethics codes that are supposed to influence their behaviour (although the adequacy of communication is occasionally poor). It is less common to tell ‘outsiders’ about a code (approximately half of customers and suppliers) and formal communication again extends only to about half of these groups (about a quarter of firms with codes). As an indicator of commitment, external communication is sufficiently ‘patchy’ to indicate either weak commitment, or perhaps a commitment to a code that is not for public consumption.
6.6 Commitment to Codes (v): Perceived Benefits

Commitment has been viewed so far in terms of inputs - the ingredients of managerial time, implementation resources, and communications that may signify whether a code is considered of marginal significance, or important to a company’s operation. Another perspective is to consider outputs. What benefits do firms expect to derive? If these are significant, commitment is more probable than if they can not.

Question 43 concerned the nexus between profitability and the use of an ethics code.

The link between profit and being ethical has perplexed researchers for many years and determining a definite relationship is almost impossible (Ch.5).

Table 6.35: Code Commitment: Perceived Effects on Profitability

<table>
<thead>
<tr>
<th>Effects on the Bottom Line (i.e. Profit)</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avoiding Problems</td>
<td>12</td>
<td>9.92%</td>
</tr>
<tr>
<td>Avoids Litigation</td>
<td>4</td>
<td>3.31%</td>
</tr>
<tr>
<td>Company Reputation</td>
<td>12</td>
<td>9.92%</td>
</tr>
<tr>
<td>Competitive Differentiation</td>
<td>1</td>
<td>0.83%</td>
</tr>
<tr>
<td>Confidence of Stakeholders</td>
<td>16</td>
<td>13.22%</td>
</tr>
<tr>
<td>Corporate Citizen</td>
<td>5</td>
<td>4.13%</td>
</tr>
<tr>
<td>Focus Employee Efforts</td>
<td>11</td>
<td>9.09%</td>
</tr>
<tr>
<td>Increase Business Performance</td>
<td>14</td>
<td>11.57%</td>
</tr>
<tr>
<td>Integral to Company Philosophy</td>
<td>8</td>
<td>6.61%</td>
</tr>
<tr>
<td>Long Term Interests Served</td>
<td>11</td>
<td>9.09%</td>
</tr>
<tr>
<td>Maximises Profit</td>
<td>3</td>
<td>2.48%</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>4.96%</td>
</tr>
<tr>
<td>Staff Morale Improved</td>
<td>1</td>
<td>0.83%</td>
</tr>
<tr>
<td>Sub-total of Profitability Effects</td>
<td>104</td>
<td>58.68%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No Profitability Effects Shown</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all Directly</td>
<td>11</td>
<td>9.09%</td>
</tr>
<tr>
<td>Don't Know</td>
<td>2</td>
<td>1.65%</td>
</tr>
<tr>
<td>No Response</td>
<td>37</td>
<td>30.58%</td>
</tr>
<tr>
<td>Sub-total of No Profitability Effects Shown</td>
<td>50</td>
<td>41.32%</td>
</tr>
<tr>
<td>Total (n=121)</td>
<td>154</td>
<td></td>
</tr>
</tbody>
</table>

Note: This question permits a multiple response, therefore the total number of responses is greater than the number of returned questionnaires (n)
Table 6.35 shows responses to this question. The number of organisations that said it did not affect profit at all was only 11/121 (9.09%). One respondent in this category suggested that the question was irrelevant because if “you are worrying about the link with profit as a motive for being ethical then you have missed the point of being ethical”. The other responses could be classified into a number of types of responses (Table 6.36).

Table 6.36: Categorisation of The Effects of the Code on Profit

<table>
<thead>
<tr>
<th>Categorisation of The Effects of the Code re Profit</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Altruistic:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integral to Company Philosophy</td>
<td>8</td>
<td>6.61%</td>
</tr>
<tr>
<td>Corporate Citizen</td>
<td>5</td>
<td>4.13%</td>
</tr>
<tr>
<td>Staff Morale Improved</td>
<td>1</td>
<td>0.83%</td>
</tr>
<tr>
<td>Confidence of Stakeholders</td>
<td>16</td>
<td>13.22%</td>
</tr>
<tr>
<td>Not At All Directly</td>
<td>11</td>
<td>9.09%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>41</td>
<td>33.88%</td>
</tr>
<tr>
<td><strong>Mercenary:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long Term Interests Served</td>
<td>11</td>
<td>9.09%</td>
</tr>
<tr>
<td>Company Reputation</td>
<td>12</td>
<td>9.92%</td>
</tr>
<tr>
<td>Increase Business Performance</td>
<td>14</td>
<td>11.57%</td>
</tr>
<tr>
<td>Maximise Profit</td>
<td>3</td>
<td>2.48%</td>
</tr>
<tr>
<td>Competitive Differentiation</td>
<td>1</td>
<td>0.83%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>41</td>
<td>33.88%</td>
</tr>
<tr>
<td><strong>Regulatory:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avoiding Problems</td>
<td>12</td>
<td>9.92%</td>
</tr>
<tr>
<td>Focus Employee Efforts</td>
<td>11</td>
<td>9.09%</td>
</tr>
<tr>
<td>Avoids Litigation</td>
<td>4</td>
<td>3.31%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>27</td>
<td>22.31%</td>
</tr>
<tr>
<td><strong>Residual:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>4.13%</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>3</td>
<td>2.48%</td>
</tr>
<tr>
<td>No Response</td>
<td>37</td>
<td>30.58%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>45</td>
<td>37.19%</td>
</tr>
<tr>
<td><strong>Grand Total (n=121)</strong></td>
<td>154</td>
<td></td>
</tr>
</tbody>
</table>

Note: This question permits a multiple response, therefore the total number of responses is greater than the number of returned questionnaires (n)
The responses centred around altruistic ideals such as being good corporate citizens; mercenary ideals that focussed on improving the position of the company and regulatory ideals that were fixed on ensuring that the employees of the organisation were controlled and prevented from doing damage to the organisation.

Several individual responses to this question are worth noting. One respondent said that their organisation believed that, “in the longer term people prefer to deal with an ethical organisation. We are continually amazed at the frequent occurrence of deceitful and/or unethical behaviour we see in the community”. One company responded that, “our company regards our ethics programme as the cornerstone of compliance management and the projection of a positive image of our company to our suppliers, competitors and customers”.

There are companies in the market place who are concerned to be ethical and that go out of their way, it would appear, to implement ethical strategies and policies. A final comment on profit generation came from a pragmatic person who said that their organisation was, “not sure that it does - in some cases the bottom line might be bigger in the absence of a code of ethics”. Just because one is ethical it does not mean that one will always benefit financially.

A second area of benefit relates to whether codes help resolve ethical dilemmas in the market place (Q.44). This question was asked to try and determine practical examples of the code being of use in the market place with other organisations or individuals with whom the company has dealt (Ch.5).

<table>
<thead>
<tr>
<th>Resolve Ethical Dilemmas in the Market Place</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>48</td>
<td>39.67%</td>
</tr>
<tr>
<td>No</td>
<td>31</td>
<td>25.62%</td>
</tr>
<tr>
<td>Don't Know</td>
<td>36</td>
<td>29.75%</td>
</tr>
<tr>
<td>No Response</td>
<td>6</td>
<td>4.96%</td>
</tr>
<tr>
<td><strong>Total (n=121)</strong></td>
<td><strong>121</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The ‘Don’t Know’ response is again larger than the ‘No’ response for this question. One could suggest that this issue is one upon which many companies
do not focus. Organisations may have ethics documents and the policies but may never assess the impact of them in the market place.

The second part of Question 44 listed the major areas in which the code of ethics has assisted the company in the market place.

Table 6.38: The Areas in which the Code was Used to Resolve Ethical Dilemmas in the Market Place

<table>
<thead>
<tr>
<th>Ethical Dilemmas in the Market Place</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>18</td>
<td>37.50%</td>
</tr>
<tr>
<td>Competitors</td>
<td>28</td>
<td>58.33%</td>
</tr>
<tr>
<td>Customers</td>
<td>34</td>
<td>70.83%</td>
</tr>
<tr>
<td>Environment</td>
<td>27</td>
<td>56.25%</td>
</tr>
<tr>
<td>Own Salesforce</td>
<td>18</td>
<td>37.50%</td>
</tr>
<tr>
<td>Packaging</td>
<td>5</td>
<td>10.42%</td>
</tr>
<tr>
<td>Pricing</td>
<td>6</td>
<td>12.50%</td>
</tr>
<tr>
<td>Product Quality</td>
<td>21</td>
<td>43.75%</td>
</tr>
<tr>
<td>Service Quality</td>
<td>19</td>
<td>39.58%</td>
</tr>
<tr>
<td>Suppliers</td>
<td>19</td>
<td>39.58%</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>10.42%</td>
</tr>
<tr>
<td>No Response</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total (n=48)</td>
<td>200</td>
<td></td>
</tr>
</tbody>
</table>

Note: This question permits a multiple response, therefore the total number of responses is greater than the number of returned questionnaires (n)

The responses for this question cover all areas of the possible alternatives given by the researcher. Some of these groups however, seem to be cited more than others. The highest ranked three items are: ‘Customers’ (70.83%), ‘Competitors’ (58.33%) and the ‘Environment’ (56.25%). It would appear that these are the major areas in which the codes have been used to resolve and or guide ethical dilemmas in the market place. It is of interest that ‘Pricing’ (12.50%) is ranked at number 9. The researcher thought that ‘Pricing’ may be of a higher priority because pricing strategies and tactics are critical to business success. Price is the only revenue generator in the four Ps of the marketing mix and there exists in Australia in the Trade Practices Act (1974) a substantial amount of law devoted to it. Possible abuses in the means of fixing prices is a major area where legislators have tried to protect the consumer. Yet, the respondents do not seem to view it as a problem that has arisen for them. It is also of interest that the Trade Practices Act (1974) focuses heavily upon dealings with both customers and competitors. These two items are the ones acknowledged most by the respondents. The fact that companies do acknowledge that the code has
assisted them in resolving ethical dilemmas in the market place is a positive admission that the codes do have practical applicability to the business environment.

Q 45. Would you please rate your impression of the effectiveness of your Company’s Code of Ethics.

This question was asked in an attempt to gain an assessment from an individual in each company about that person’s perception of the value of having a code of ethics. It must be recognised, in the analysis of the data in this question, that it is the response of one person in each company. Therefore, the response may not necessarily reflect the general impression or belief of the organisation or other individuals within that organisation.

Table 6.39: The Effectiveness of the Code of Ethics

<table>
<thead>
<tr>
<th>Effectiveness of the Code</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No Effect</td>
<td>3</td>
<td>2.48%</td>
</tr>
<tr>
<td>2. Marginal</td>
<td>3</td>
<td>2.48%</td>
</tr>
<tr>
<td>3. Limited</td>
<td>16</td>
<td>13.22%</td>
</tr>
<tr>
<td>4. Positive</td>
<td>31</td>
<td>25.62%</td>
</tr>
<tr>
<td>5. Good</td>
<td>35</td>
<td>28.93%</td>
</tr>
<tr>
<td>6. Excellent</td>
<td>24</td>
<td>19.83%</td>
</tr>
<tr>
<td>7. Don’t Know</td>
<td>3</td>
<td>2.48%</td>
</tr>
<tr>
<td>No Response</td>
<td>6</td>
<td>4.96%</td>
</tr>
<tr>
<td><strong>Total (n=121)</strong></td>
<td>121</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: ‘7. Don’t Know’ was not used in the calculations of the Mean and Median values.

The mean is 4.46 which is just below the ‘Good’ rating of 5 and the median is in the ‘Good’ rating category. Only 22/121 companies (18.18%) view their code as being ‘Limited’ or of a lesser effect upon the organisation. This figure of approximately 1 in 5 is a small number to express dissatisfaction.

On the other hand, it is an extremely sound rating to get 90/121 companies to laud their code as being at worst, ‘positive’. To have a figure of 74.38% of respondents giving a positive or better response to the value of their code highlights belief in the worth of codes of ethics in corporate Australia. Thus, it
would appear, that in general, Australian companies do view the code as an effective document that appears to be assisting the organisation in its business practices.

Q 46. Do you believe that your company will be introducing a Code of Ethics / Practice / Conduct within the next 2 years?

This question was asked so that the researcher could attempt to gauge the intention of survey respondents who did not have a code, to determine if their organisations were contemplating the introduction of a code within the next two years. The purpose of the question was to see if a code of ethics was on the management agenda in these organisations.

Table 6.40: Intention to Establish a Code within the next Two Years

<table>
<thead>
<tr>
<th>Code within the next Two Years</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>58</td>
<td>40.28%</td>
</tr>
<tr>
<td>No</td>
<td>34</td>
<td>23.61%</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>48</td>
<td>33.33%</td>
</tr>
<tr>
<td>No Response</td>
<td>4</td>
<td>2.78%</td>
</tr>
<tr>
<td><strong>Total (n=144)</strong></td>
<td>144</td>
<td>100%</td>
</tr>
</tbody>
</table>

Responses to this question revealed that 58/144 companies (40.28%) were looking to establish a code within the next two years. The ‘No’ response was less than a quarter of the respondents whilst the ‘Don’t Know’ response was exactly one third of respondents.

In this section the survey questionnaire of Stage 1 of this research has been examined in-depth. The amount of information revealed was extensive. To summarise, the following results are suggested by the survey data:

- Only 50 (41% of respondents with codes) saw no way the code could affect profitability, leaving almost three fifths claiming some financial benefit.

- Three avenues to profitability were identified – the altruistic, mercenary and regulatory approaches – all being of roughly similar incidence.
• Almost two fifths of firms expect ethics codes to help resolve marketplace dilemmas (mainly in customer and competitor relations).

• Three quarters of firms with codes rated overall effectiveness positively.

Given such positive views amongst firms with codes of ethics, it is less surprising to find 40% of firms without codes intending to adopt them soon.

6.7 Commitment to Codes: An Overview

In this section, the intention is to sum up the findings of the Stage 1 survey instrument on commitment to codes. Whilst each point has been discussed before, the idea is to produce a profile of the ways that companies in Australia implement and use a code of ethics.

Commitment to codes was explained at the beginning of this chapter as a concept that can be examined from many different standpoints - not a simple concept captured through a single measure or index (whether composite or not). In this chapter we reviewed Stage 1 survey data relating to:

• Incidence of a code (a threshold test for commitment)
• Inputs (development, implementation and communication)
• Outputs (perceived benefit)

Our data on these can be summarised as follows:

Table 6.41: Incidence of Codes

<table>
<thead>
<tr>
<th></th>
<th>Code %</th>
<th>No Code %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>54.9</td>
<td>45.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>47.2</td>
<td>52.8</td>
</tr>
<tr>
<td>Other</td>
<td>38.0</td>
<td>62.0</td>
</tr>
<tr>
<td><strong>Ownership</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australian</td>
<td>35.2</td>
<td>64.8</td>
</tr>
<tr>
<td>Other</td>
<td>59.8</td>
<td>40.2</td>
</tr>
<tr>
<td><strong>Size – Turnover</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ $1000 million</td>
<td>53.3</td>
<td>46.7</td>
</tr>
</tbody>
</table>
Overall incidence of codes for the survey respondents was 45.7%. Actual incidence in the population cannot be established but would be more than a third and less than half. Incidence is highest in foreign owned firms; in finance and manufacturing; and in large firms.

Table 6.42 Development of Codes
(% of Survey Respondents with Codes: n=121)

<table>
<thead>
<tr>
<th></th>
<th>High Commitment</th>
<th>Low Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Development</td>
<td>52.1% ¹</td>
<td>47.9% ²</td>
</tr>
<tr>
<td>Long term commitment to code</td>
<td>32.2% ³</td>
<td>67.8% ⁴</td>
</tr>
<tr>
<td>Code was developed internally</td>
<td>58.7% ⁵</td>
<td>41.3% ⁶</td>
</tr>
<tr>
<td>Multiple stakeholders</td>
<td>21.9% ⁷</td>
<td>78.1% ⁸</td>
</tr>
<tr>
<td>Established code</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Respondent has a code. There is no parent or the parent has no code.
2. Respondent has a code: so does the parent.
3. Code is 5+ years old.
4. Code is less than 5 years old.
5. Code was drafted within the firm.
6. Code was adapted or borrowed from another code.
7. Lower staff and/or customers helped establish code.
8. Only CEO/Director or senior management established the code.

Table 6.42 shows the proportion of survey respondents with codes who show high commitment in different aspects of development. Most important here are the last two - whether the code was drafted internally (58.7%) or substantially borrowed (41.3%), and whether multiple stakeholders were involved (21.9%) or just the senior group in the business (78.1%). The low participation of employees and customers is a significant weakness showing a flaw in commitment for almost 4/5ths of firms with a code.
Table 6.43 (next page) shows clear variations in the strength of commitment shown to different implementation measures. Almost all firms with codes communicate them to employees and use them in induction and discipline. Under half use them in strategic planning. Only about a third use ‘special processes’ for ethics training and audit. Only a quarter have whistleblower protection and a standing ethics committee. Only one in five have an ombudsman.

Table 6.43: Implementation of Codes
(% of Survey Respondents with Codes: n = 121)

<table>
<thead>
<tr>
<th>Adapted Processes</th>
<th>High Commitment %</th>
<th>Low Commitment %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication to employees</td>
<td>95.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Code used in Induction</td>
<td>92.6</td>
<td>7.4</td>
</tr>
<tr>
<td>Code enforced by discipline</td>
<td>83.4</td>
<td>16.6</td>
</tr>
<tr>
<td>Code used in appraisal</td>
<td>69.4</td>
<td>30.6</td>
</tr>
<tr>
<td>Code used in Strategic Planning</td>
<td>45.5</td>
<td>54.5</td>
</tr>
<tr>
<td>Special Processes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whistleblower Protection</td>
<td>25.6</td>
<td>74.4</td>
</tr>
<tr>
<td>Standing Ethics Committee</td>
<td>25.6</td>
<td>74.4</td>
</tr>
<tr>
<td>Ethics Training Committee</td>
<td>14.9</td>
<td>85.1</td>
</tr>
<tr>
<td>Ethics Training</td>
<td>33.1</td>
<td>66.9</td>
</tr>
<tr>
<td>Ombudsman</td>
<td>19.9</td>
<td>80.1</td>
</tr>
<tr>
<td>Ethical audit</td>
<td>38.1</td>
<td>61.9</td>
</tr>
</tbody>
</table>

Commitment is generally highest where existing business and HR practices are adapted as vehicles for the ethics code, and lowest when special processes need establishment and resourcing.
Table 6.44 tells us that communication to employees is far more pervasive than communication to customers and suppliers - suggesting an inward rather than outward focus in purpose. If high commitment is associated with normal commitment, and medium commitment with information (and therefore haphazard) communication, then just over a fifth of firms with codes show high commitment to communicating with external stakeholders and more than half reveal no commitment (they do not communicate at all). Formal communication to suppliers is greater than to customers signifying perhaps marginally higher powers in dealing with suppliers.

Table 6.44: Communication of Codes
(% of Survey Respondents with Codes: n=121)

<table>
<thead>
<tr>
<th></th>
<th>% of Respondents</th>
<th>Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Communicate code to employees</td>
<td>95.0</td>
<td></td>
</tr>
<tr>
<td>2. Formal code communication to customers</td>
<td>21.5</td>
<td>High</td>
</tr>
<tr>
<td>3. Informal code communication to customers</td>
<td>27.2</td>
<td>Medium</td>
</tr>
<tr>
<td>4. No code communication to customers</td>
<td>51.2</td>
<td>Low</td>
</tr>
<tr>
<td>5. Formal code communication to suppliers</td>
<td>23.9</td>
<td>High</td>
</tr>
<tr>
<td>6. Informal code communication to suppliers</td>
<td>17.4</td>
<td>Medium</td>
</tr>
<tr>
<td>7. No code communication to suppliers</td>
<td>58.7</td>
<td>Low</td>
</tr>
</tbody>
</table>

Table 6.45 shows that three quarters of respondents perceive the codes as effective whilst at least 58.7% perceive benefits in profitability or resolving ethical dilemmas.

Table 6.45: Perceived Benefits
(% of respondents with codes: n=121)

<table>
<thead>
<tr>
<th></th>
<th>Yes %</th>
<th>No %</th>
</tr>
</thead>
</table>

The Australian Situation: An Analysis of the Results

| Code helps profitable performance | 58.7 | 41.3 |
| Code helps resolve ethical dilemmas in the market place | 39.7 | 60.3 |
| Code effectiveness is rated as positive or better | 74.4 | 25.6 |

What the data summarised above shows us is uneven performance in terms of corporate commitment to codes of ethics. Scaling some key indicators, the variations in performance are as follows:

Table 6.46: Occurrence of Key Indicators of Performance

<table>
<thead>
<tr>
<th>Key Indicators &amp; % of Occurrence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>80% + of respondents with codes</strong></td>
</tr>
<tr>
<td>Communication to employees (95%)</td>
</tr>
<tr>
<td>Code used in induction (92.6%)</td>
</tr>
<tr>
<td>Code enforced by discipline (83.4%)</td>
</tr>
<tr>
<td><strong>50-79% of respondents with codes</strong></td>
</tr>
<tr>
<td>Code used in appraisal (69.4%)</td>
</tr>
<tr>
<td>Code was drafted internally (58.7%)</td>
</tr>
<tr>
<td>Code helps profitable performance (58.7%)</td>
</tr>
<tr>
<td><strong>20-49% of respondents with codes</strong></td>
</tr>
<tr>
<td>Code used in strategic planning (45.5%)</td>
</tr>
<tr>
<td>Ethical audit (38.1%)</td>
</tr>
<tr>
<td>Ethics training (33.1%)</td>
</tr>
<tr>
<td>Whistleblowers protection (25.6%)</td>
</tr>
<tr>
<td>Standing Ethics Committee (25.6%)</td>
</tr>
<tr>
<td>Formal communication to suppliers (23.9%)</td>
</tr>
<tr>
<td>Multiple stakeholders established code (21.9%)</td>
</tr>
<tr>
<td>Formal communication to customers (21.5%)</td>
</tr>
<tr>
<td><strong>-20% of respondents with codes</strong></td>
</tr>
<tr>
<td>Ombudsman (19.9%)</td>
</tr>
<tr>
<td>Ethics Training Committee (14.9%)</td>
</tr>
</tbody>
</table>
One interpretation of this data would identify ‘high commitment’ to codes of ethics with the more exceptional activities - appointment of an ombudsman, formal communication to customers and suppliers, whistleblowers’ protection, involvement of multiple stakeholders in establishing the code, and so on. The literature reviewed in Chapters One to Five tends to identify such mechanisms and practices with ‘high commitment’. In Chapter Eight below, when we examine four best practice cases, such ‘exceptional processes and practices’ tend to emerge again as the hallmark of high commitment.

Conversely, other practices and processes are more routine occurring almost automatically following adoption of a code. Most significant here are routine communication to employees and the use of ethics codes in induction and discipline processes.

It would be wrong to identify ‘commitment’ solely with frequency. Things done rarely may be trivial and signify little when they occur, and conversely some universal practices may be central to commitment to a code. Our approach needs to be more informed by the literature which is a guide to the practices and processes central to commitment to codes.

In view of that literature - as discussed in Chapters 1 and 5 - the following tentative conclusions may be suggested:

1. Few Australian firms with codes perform well in terms of involvement of multiple stakeholders in adoption, communication to external stakeholders, and enactment of special processes to implement codes.

2. A majority of firms with codes take steps to communicate with employees and build the codes into routine HR processes.

The overall picture is one of a rather inward looking, perhaps under-developed, and under-resourced approach to codes of ethics.
Chapter 7

Commitment to Codes - A Cross Cultural Examination of Their Purpose and Enforcement

7.1 Introduction

In Chapter Six we examined Australian survey evidence of corporate commitment to codes of ethics looking at commitment in terms of their adoption, the inputs associated with commitment to making them work, and expected outputs. Our conclusion was that there was probably a reasonably high incidence of codes of ethics in Australia’s top 500 private sector firms, but that signs of high commitment rarely exceeded 50% of firms with codes for any single criterion of commitment. Perhaps half of these firms with codes put little into them and expect little out of them. This raises the question why they adopt them at all, since a code which is marginal to corporate operation would seem to be wasteful - consuming some resources for no likely purpose. There are, of course, several possible rational explanations for ‘under-committed’ firms in the sample. One is that under-commitment represents an early stage of development - they have yet to learn what resourcing is needed and what results are possible. Another is political instability - that those who supported establishment of a code of ethics have gone, leaving the code in the hands of new managers who don’t wish to resource it or see its value. However, a third possible explanation relates to purpose. Perhaps the purpose of a code is not to regulate or change ethical conduct but to appear to do so. A code may be adopted only for public relations purposes. This would be inconsistent with our discovery of secrecy in some respondents to the Stage 1 study. However for others, perhaps under-resourcing and low perceived benefits relate to the perception that a code is intended simply to ‘look good’ - not to encourage good behaviour.

In this Chapter we look at the objectives of codes - the purposes for which they were established. Our primary data is not Stage 1 survey data - but an analysis of code content for the 83 codes submitted by firms in the population of the top 500 private sector firms. The framework for code analysis was assembled to enable simulation of studies conducted in Canada and the USA. Consequently
data on the purpose of codes is presented in comparative form showing the relative incidence of different code characteristics in the three countries. The major criteria for analysis are as follows:

- Formal code characteristics (name/length) - Australian data only.
- Type of conduct to be regulated (1) - Conduct on behalf of the firm (3 country data)
- Type of conduct to be regulated (2) - Conduct against the firm (3 country data).
- External regulatory content (1) - Laws (3 country data)
- External regulatory content (2) - Government Agencies (3 country data)
- Compliance (1) - Type of Procedure (3 country data)
- Compliance (2) - Type of Penalty (3 country data)

By analysing this data we are able to compare the purposes that codes serve in the three countries - looking for similarities and differences in purpose with respect to the type of conduct to be influenced, external regulatory content, and compliance methods.

### 7.2 Content Analysis of Codes of Ethics: Background

In Chapter 5 it was noted that 83 codes of ethics were supplied by firms in the population of the top 500 private sector companies. The analysis that follows is based on content analysis of these codes. In this section we propose to provide a basic description of these Australian codes, and a comparison with the samples analysed by Mathews (1987), and Lefebvre and Singh (1992) for the USA and Canada.

Content analysis was conducted around the analytical categories created by Mathews and Lefebvre and Singh. Before cataloguing data from the 83 Australian codes, each code was read three times.

The range of names for the code was varied. Many companies incorporated their company name into the title, often with another identifier in respect to the purpose of the code. The most popular name was that of code of conduct (24.10%). This was followed by code of ethics (10.84%). Table 7.1 outlines all of the broad categories of the names used.
Table 7.1: The Names of the Codes

<table>
<thead>
<tr>
<th>Names of the Codes</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code of Business Conduct</td>
<td>8</td>
<td>9.64%</td>
</tr>
<tr>
<td>Code of Conduct</td>
<td>20</td>
<td>24.10%</td>
</tr>
<tr>
<td>Code of Ethical Conduct</td>
<td>3</td>
<td>3.61%</td>
</tr>
<tr>
<td>Code of Ethics</td>
<td>9</td>
<td>10.84%</td>
</tr>
<tr>
<td>Code of Practice</td>
<td>2</td>
<td>2.41%</td>
</tr>
<tr>
<td>Other Conduct</td>
<td>7</td>
<td>8.43%</td>
</tr>
<tr>
<td>Other Ethics</td>
<td>7</td>
<td>8.43%</td>
</tr>
<tr>
<td>Standards of Business Conduct</td>
<td>4</td>
<td>4.82%</td>
</tr>
<tr>
<td>Statement of Business Conduct</td>
<td>2</td>
<td>2.41%</td>
</tr>
<tr>
<td>Statement of Purpose</td>
<td>2</td>
<td>2.41%</td>
</tr>
<tr>
<td>Values</td>
<td>3</td>
<td>3.61%</td>
</tr>
<tr>
<td>Other</td>
<td>16</td>
<td>19.28%</td>
</tr>
<tr>
<td>Total (n=83)</td>
<td>83</td>
<td>100%</td>
</tr>
</tbody>
</table>

The page length of the codes varied dramatically (Table 7.2). Some codes were less than a full page whilst others were in excess of 30 pages. The codes that contained in excess of 20 pages appeared to be those of companies with an international parent. The length of the code was thought to be indicative of the degree of prescription of company standards.

Table 7.2: The Number of Pages in the Codes

<table>
<thead>
<tr>
<th>Number of Pages in the Codes</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 5</td>
<td>33</td>
<td>39.76%</td>
</tr>
<tr>
<td>6 to 10</td>
<td>20</td>
<td>24.10%</td>
</tr>
<tr>
<td>11 to 15</td>
<td>11</td>
<td>13.25%</td>
</tr>
<tr>
<td>16 to 20</td>
<td>9</td>
<td>10.84%</td>
</tr>
<tr>
<td>20 to 25</td>
<td>3</td>
<td>3.61%</td>
</tr>
<tr>
<td>25 to 30</td>
<td>4</td>
<td>4.82%</td>
</tr>
<tr>
<td>30+</td>
<td>3</td>
<td>3.61%</td>
</tr>
<tr>
<td>Total (n=83)</td>
<td>83</td>
<td>100%</td>
</tr>
</tbody>
</table>

The longer the code the more prescriptive were the contents. Conversely, the briefer the code the less prescriptive were its contents. The shortest code proffered was on the back of a business card. It outlined the principles of the organisation upon which it based its business dealings. It was an excellent philosophical statement of the manner by which one should conduct business. The longest code was 46 pages. It provided the philosophical perspective of the
organisation and it also gave examples and scenarios for most of the situations that the company expected that employees may face. It should be noted that no inferences should be drawn about the respective merits of different code lengths. The codes cited were highlighted just to show the range and diversity of codes available for analysis.

As we have seen, Australian code data is based on a content analysis of 83 codes supplied by large private sector firms. How does this compare with the comparative Canadian and US data?

The study by Mathews (1987) looked at 485 manufacturing firms in the United States in an attempt to examine the impact of a code of ethics on the aspect of corporate crime related to illegal behaviour that directly affected consumers and the general public. The period examined was from 1973 to 1980. The period of investigation mirrored the Baucas and Near study (1991) (Ch.4). Mathews had a response rate of 71% to her survey yielding 202 useable codes for analysis.

Lefebvre and Singh (1992) surveyed 461 companies from the Financial Post 500 in Canada. They had a survey response rate of 48.9%. The relevant focus of their study was upon the content of the 75 codes of ethics that were forwarded to them.

In the following pages, the content of the Australian codes is examined in depth and comparisons are made with the findings of Mathews (1987) and Lefebvre and Singh (1992). (The complete table of results is contained in Appendix H.)

To conclude, the three bodies of code content data for this thesis - Wood for Australia, Mathews for the USA, and Lefebvre and Singh for Canada - use comparable analytical headings to categorise code content. However, the sample groups have acknowledged differences. Mathews focuses on a single industry (manufacturing) while the other two deal with similar sized samples (83 for Wood and 75 for Lefebvre and Singh) in the top 500 firms.

7.3 Code Objectives: Regulating conduct externally or internally?

Mathews and Lefebvre and Singh categorise code objectives by asking whether they regulate employee conduct external to (on behalf of) the firm or internally
(against the firm). Tables 7.3 and 7.4 show comparative data on these different purposes.

Table 7.3: Code Comparison: Conduct on Behalf of the Firm

<table>
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<tr>
<th>Research Study:</th>
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_Conduct on Behalf of the Firm_  

1. Relations with Home Gov't       86.6 58.7 24.1
2. Relations with customers/suppliers 86.1 77.4 86.7
3. Relations with employees-health, safety 37.1 48 53
4. Relations with competitors 58 29.3 33.7
5. Relations with foreign gov'ts 73.3 22.7 10.8
6. Relations with investors 41.1 32 30.1
7. Civic and Community affairs 24.8 33.3 45.8
8. Relations with consumers 23.3 33.3 9.6
9. Environmental affairs 12.9 21.3 37.3
10. Product safety 9 12 14.5
11. Product quality 21.3 24 34.9
12. Payments or political contributions to gov'ts or gov't officials or employees 84.7 62.7 41
13. Acceptance of bribes, kickbacks, gifts/entertainment N/A 82.7 68
14. Giving of bribes, kickbacks, gifts/entertainment N/A 66.7 53

‘Conduct on Behalf of the Firm’ is the first area of comparison. This area is concerned with the behaviour that is exhibited by employees when representing the organisation. It examines the dealings that employees have with governments, competitors, customers, suppliers, the community and fellow employees in terms of health and safety.

The US codes are concerned predominantly with the issues involved with governments, both internal and foreign, competition, and political contributions. These issues are ones that relate to the legal basis of American business. The US system is predicated on maintaining competition. Any actions that diminish the level of competition fall under the auspices of anti trust and competition laws. There is also a sharper focus upon the dealings with governments. The US focus on foreign governments (73.3%) which is far in excess of the Australian (10.8%) and Canadian position (22.7%) is indicative of the fact that many US enterprises are now global corporations. The US has taken its business to the world whilst in the Australian context companies have
only recently focussed outside of Australia to realise that there is a world. For many years, Australia ran protectionism policies encompassing tariffs and quotas that enabled business in this country to focus inwards rather than outwards. Australian codes reflect that focus.

Canadian companies (82.7%) in this area are more concerned with bribes and kickbacks than in Australia (68%). A point of interest is that in both Australian and Canadian companies employees are advised not to take bribes more often than they are advised not to give them.

Lefebvre and Singh (1992:806) conclude that Canadian companies are,

more concerned with the acceptance of bribes, kickbacks and gifts/entertainment than they are with the giving of such amenities.

Australian codes are more inclined to deal with the issues of community involvement, environmental issues and product quality. The Australian codes mention, more than the American and Canadian codes both product safety and employee health and safety. It would appear that in the area of ‘Conduct on Behalf of the Firm’ that Australian companies are more focussed than their Canadian or American counterparts on the social issues of environment, community, product performance and the well being of workers. This last point is considered by Benson (1989:309) when he says,

It seems quite likely that those firms that do enunciate their obligations to the employee in their codes of ethics are more likely to inspire faith on the part of the employees than those that neglect this aspect of corporate responsibility.

This suggests a positive benefit of presenting commitments to employees is that the employees are more likely to accept the worth of the code.

Table 7.4 shows an analysis of code content on ‘Conduct Against the Firm’.

Table 7.4: Code Comparison: Conduct Against the Firm

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Conduct Against the Firm
The interesting point here is that the Australian data places Australian companies between the American and Canadian positions for items 16, 17, 18, 19 and 21. Lefebvre and Singh (1992) suggest that Canadian companies flag ‘Conduct Against the Firm’ more frequently than ‘Conduct on Behalf of the Firm’.

Mathews (1987) also found that American codes were more inward than outward looking. This suggestion about American codes is also supported by Chatov (1980), Cressey and Moore (1983), and David (1988). One could speculate that this shows a desire to use codes as inward regulatory documents rather than outwardly focussed documents. Chatov (1980:29) encapsulates this ideal well. He argues that,

Most corporate attention is given to areas with a potential for dramatic impact on the corporation. That the corporation will be a transgressor or a victim is of most concern.

It was decided to try and quantify this factor. By adding up the frequencies of mention for each point in codes across the US, Canadian and Australian samples for ‘Conduct on Behalf of the Firm’ and ‘Conduct Against the Firm’ one could compare them. Table 7.5 shows that ‘Conduct Against the Firm’ is mentioned in codes much more frequently on average than ‘Conduct on Behalf of the Firm’. In the USA codes the increase on average is 7.79% yet in the Canadian codes (23.69%) and the Australian codes (17.13%) the concentration on ‘Conduct Against the Firm’ is decidedly higher per point mentioned as compared to ‘Conduct on Behalf of the Firm’. These figures would support the contention of the trend amongst corporations in the 3 societies to look inwards rather than outwards.

Table 7.5: Code Comparison: Outward vs Inward Focus

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<th>Item</th>
<th>USA</th>
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<tr>
<td>15. Conflict of interest</td>
<td>75.3</td>
<td>93.3</td>
<td>72.3</td>
</tr>
<tr>
<td>16. Divulging trade secrets/proprietary information</td>
<td>45.1</td>
<td>81.3</td>
<td>67.5</td>
</tr>
<tr>
<td>17. Insider trading information</td>
<td>43.1</td>
<td>72.0</td>
<td>56.6</td>
</tr>
<tr>
<td>18. Personal character matters</td>
<td>6.4</td>
<td>50.7</td>
<td>20.5</td>
</tr>
<tr>
<td>19. Other conduct against the firm</td>
<td>10.4</td>
<td>52.0</td>
<td>30.1</td>
</tr>
<tr>
<td>20. Integrity of books and records</td>
<td>75.3</td>
<td>82.7</td>
<td>57.8</td>
</tr>
<tr>
<td>21. Legal responsibility</td>
<td>90.6</td>
<td>32.0</td>
<td>79.5</td>
</tr>
<tr>
<td>22. Ethical responsibility</td>
<td>88.1</td>
<td>70.7</td>
<td>62.7</td>
</tr>
</tbody>
</table>
Table 7.5 suggests that codes are concerned more with regulating ‘Conduct Against the Firm’ than ‘Conduct on Behalf of the Firm’. They are there to protect firms rather than their public. This is most true of Canadian codes and least true of US codes, with Australian codes closer to the Canadian pattern. Nevertheless, a large part of code purpose is to protect external parties that the firm’s employees deal with. In the US and Canadian context this has been explained by reference to threats from laws and regulators. Codes of ethics exist to either prevent unethical behaviour causing actions which will be dealt with by courts or regulators, or to provide a legal defence for the firm which can demonstrate that liability lies with employees or agents who have breached a code. Content analysis of codes suggests that laws were significant but Government Agencies and Commissions were not.

The Competition laws are the ones most mentioned in US (33.2%), Canadian (44%) and Australian (32.5%) codes (Table 7.6).

Table 7.6: Code Comparison: Legal Influences

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Laws cited (in references to)

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<tbody>
<tr>
<td>23. Competition Act/Anti-trust/TPA*</td>
<td>33.2</td>
<td>44</td>
<td>32.5</td>
</tr>
<tr>
<td>24. Securities</td>
<td>14.4</td>
<td>24</td>
<td>15.7</td>
</tr>
<tr>
<td>25. Environment</td>
<td>0.5</td>
<td>9.3</td>
<td>13.3</td>
</tr>
<tr>
<td>26. Food and Drug</td>
<td>0.5</td>
<td>0</td>
<td>1.2</td>
</tr>
<tr>
<td>27. Product safety &amp; quality</td>
<td>1</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>28. Worker health/safety</td>
<td>4.5</td>
<td>9.3</td>
<td>15.7</td>
</tr>
<tr>
<td>29. Bribes or payments to gov'ts or officials</td>
<td>18.8</td>
<td>14.7</td>
<td>14.5</td>
</tr>
<tr>
<td>30. False advertising</td>
<td>8.4</td>
<td>2.7</td>
<td>2.4</td>
</tr>
<tr>
<td>31. Other laws</td>
<td>8</td>
<td>12</td>
<td>43.4</td>
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* Australian equivalent: TPA = Trade Practices Act
Australian codes contain more mentions than US or Canadian codes in the areas of ‘Environmental laws’ and ‘Worker Health and Safety laws’. This observation fits with the earlier point in Table 7.3 that noted that Australian codes mentioned these areas more than the US and Canadian codes. The Australian codes (43.4%) in respect to ‘Other laws’ are far in excess of the US (8%) and Canadian (12%) situations. The major law cited is that of Equal Opportunity Act (1984) (EEO) involvement in respect to employment and harassment legislation. EEO is mentioned in 48.2% of Australian codes. This may well be a feature of the fact that 47% of these codes were established since 1990, where in this country, there has been a concerted push and recognition of the need for EEO practices. It is a legal requirement of business in Australia. Obviously, it is an issue that companies feel needs to be at the forefront of the minds of employees.

Table 7.7 shows the number of codes which refer to specific Government agencies. These figures show that there is a minimal mention of these Government agencies across all three sets of codes.

Table 7.7: Code Comparison: Regulatory Agencies

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</table>


Governmental Agencies/Commissions referred to

32. Competition Tribunal / TPA  N/A 1.3 0
33. Other agencies  N/A 0 7.2

The six companies (7.2%) in Australia that mentioned other agencies were all organisations with an American parent.

What conclusions can be drawn from Tables 7.6 and 7.7? Perhaps the only firm one is that competition, securities and corruption laws have a significant influence on ethical codes in all three countries, but that only Australian firms have developed ethical codes that acknowledge a response to EEO law.

7.4 Content Analysis of Codes of Ethics: Compliance and Penalties
In this section we analyse code content relating to compliance, enforcement and penalties. To what extent is the purpose of the code supported by tough compliance or enforcement provisions. Table 7.8 (next page) compares compliance and enforcement procedures in the three countries. The areas mentioned can be grouped into internal oversight, internal personal integrity, and external. Each area looks at a different perspective of the same issue. Internal oversight measures are those individuals and committees inside the company that are charged by the organisation with maintaining a vigilance on the behaviour of other employees.

Table 7.8: Code Comparison: Compliance/Enforcement

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**Types of Compliance/Enforcement procedures**

**Internal - Oversight**

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<tr>
<td>34. Supervisor surveillance</td>
<td>41.1</td>
<td>45.3</td>
<td>21.7</td>
</tr>
<tr>
<td>35. Internal watchdog committee</td>
<td>18.3</td>
<td>9.3</td>
<td>8.4</td>
</tr>
<tr>
<td>36. Internal audits</td>
<td>22.9</td>
<td>34.7</td>
<td>12</td>
</tr>
<tr>
<td>37. Read and understand affidavit</td>
<td>6</td>
<td>45.3</td>
<td>20.5</td>
</tr>
<tr>
<td>38. Routine financial budgetary</td>
<td>2.5</td>
<td>1.3</td>
<td>1.2</td>
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<tr>
<td>review</td>
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<tr>
<td>39. Legal department review</td>
<td>36.1</td>
<td>9.3</td>
<td>7.2</td>
</tr>
<tr>
<td>40. Other oversight procedures</td>
<td>25.8</td>
<td>18.7</td>
<td>9.6</td>
</tr>
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**Internal - Personal Integrity**

(For questions re policy or reporting misconduct of self or others to:

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<tr>
<td>41. Supervisor</td>
<td>34.1</td>
<td>69.3</td>
<td>49.4</td>
</tr>
<tr>
<td>42. Internal watchdog committee</td>
<td>12.4</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>43. Corporation's legal counsel</td>
<td>60</td>
<td>44</td>
<td>32.5</td>
</tr>
<tr>
<td>44. Other (in firm)</td>
<td>53</td>
<td>46.7</td>
<td>25.3</td>
</tr>
<tr>
<td>45. Compliance affidavits</td>
<td>44.6</td>
<td>34.7</td>
<td>12</td>
</tr>
<tr>
<td>46. Employee integrity</td>
<td>49.5</td>
<td>44</td>
<td>43.4</td>
</tr>
<tr>
<td>47. Senior management role models</td>
<td>4.5</td>
<td>6.7</td>
<td>8.4</td>
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**External**

<table>
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<th>Procedure</th>
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<tbody>
<tr>
<td>48. Independent auditors</td>
<td>17.3</td>
<td>13.3</td>
<td>1.2</td>
</tr>
<tr>
<td>49. Law enforcement</td>
<td>1.0</td>
<td>1.3</td>
<td>0</td>
</tr>
<tr>
<td>50. Other external</td>
<td>0.5</td>
<td>1.3</td>
<td>3.6</td>
</tr>
<tr>
<td>51. Codes mentioning Enforcement or Compliance Procedures</td>
<td>79.7</td>
<td>70.7</td>
<td>51.8</td>
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</table>
Internal personal integrity matters are concerned with individuals or committees within the organisation to whom individuals may go if they are concerned with ethical matters that relate to their own actions or the actions of others within the organisation. The external group is comprised of outside individuals or agencies that are also used to monitor the ethical performance and, in some cases, legal performance of employees.

Australian companies surveyed have fewer internal oversight provisions formally stated in their codes than American and Canadian organisations. Supervisor surveillance (21.7%) is the major area of internal oversight of companies operating in Australia followed closely by read and understand affidavit (20.5%). Australian companies mention in their codes, at a far lesser rate than the Americans or the Canadians, the procedures of: internal watchdog committee, internal audits, legal department review and other oversight procedures. Australian codes appear to have less formal mechanisms for the monitoring of staff than the US, and Canadian organisations. One could speculate that this phenomenon could be linked with the original supposition that Australian codes are less legalistic and more social than the other two sets of codes. Therefore this social focus may also translate into a reduced rate of enforcement watchdogs due to a social belief in trusting individuals. Perhaps it also is a manifestation of the ‘don’t dob on your mates’ mentality. However, it could be borne out of a misplaced naivety that employees generally do not need supervision in this area. If companies, as stated earlier, do not generally provide training for staff (Ch.6) then one could assume that the belief exists that employees do not need it because they would be inherently ethical. Therefore, if they are inherently ethical then one will need limited surveillance of behaviour.

When an employee within an Australian organisation needs to confront the possibility of either their own unethical behaviour or that of others then nearly 50% of companies nominate the supervisor as the person to whom inquiries should be directed. As stated in an earlier part of the thesis (Ch.4), this can be a problem because often it could be the supervisor who is a part of the problem and not the solution. Companies operating within Australia (12%) do not use compliance affidavits to the same extent as American (44.6%) and Canadian (34.7%) organisations. By using compliance affidavits one can ensure that employees must at least take some time to assess their performance in this area over a previous period of time. This idea was suggested and commented upon earlier. Furthermore, one can see the difference in terms of legal involvement between those companies operating in the United States (60%) and companies
operating in Australia (32.5%). Of the companies operating in Australia who mentioned the use of the corporation’s legal counsel, 78% were companies with a US parent: only three Australian owned companies used this approach.

Employee integrity is similar in all three code groups and integral to the process. Within this area of employee integrity, as understood by companies, connotes that individuals will engage in whistleblowing. The ways in which this process is expressed in Australian codes is that one should inform one’s supervisors of either one’s concerns with one’s own actions or with those actions of other members of the organisation. Hence, individual employees become an internal oversight mechanism. The request is made of the integrity of employees to question what they see to be of concern. Not only should they question these situations but they are requested, as a part of their corporate duty, to pursue any concerns or irregularities that they may have with more senior authority figures within the organisation.

Companies operating in Australia (8.4%) do tend to use senior managers as role models slightly more than US (4.5%) and Canadian (6.7%) organisations.

The use of external monitors for unethical behaviour is unpopular amongst Australian companies. Only one company mentioned the use of an independent auditor. Also Australian codes (51.8%) mention less the fact of having enforcement and or compliance procedures in comparison with their US (79.7%) or Canadian (70.7%) counterparts. Companies operating within Australia seem to focus less on the use of external measures than either American or Canadian organisations. Lefebvre and Singh (1992) contend that companies do not use external agencies to monitor company practices because of the possibility of the external organisation revealing to the general public the infraction. Hence, internal surveillance and vigilance would be preferable to external monitoring because of the potential downside of poor publicity in case one transgresses and it would be made public.

The internal penalties applied by the organisations of the three countries are of similar frequencies in most areas (Table 7.9).

Table 7.9: Code Comparison: Penalties

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Commitment to Codes - A Cross Cultural Examination of Their Purpose and Enforcement


Penalties for Illegal Behaviour

Internal

52. Reprimand 6 8 9.6
53. Fine 0 2.7 1.2
54. Demotion 7 5.3 1.2
55. Dismissal/Firing 37.7 46.7 39.8
56. Other internal penalty 25.8 26.7 34.9

External

57. Legal prosecution 26.2 14.7 24.1
58. Other external penalty 1.5 4 3.6

Companies operating in Australia however, do not appear to favour demotion with only one company mentioning it as an option. Probably, this could be a cultural situation. Australian companies, from the experience of the researcher, tend not to demote but to release the employee and in some cases source outplacement services for that individual. Demotion, by its very nature, is debilitating to the reputation and one assumes motivation of the individual concerned. It can also have a negative effect upon other employees. Also if the breach was sufficient to warrant demotion then the person concerned would find it potentially difficult to obtain the trust of either new subordinates or to regain the confidence of peers and supervisors. Hence, the individual and the organisation could be in an invidious situation.

The concept of a fine for individuals is not one that has been seriously entertained in the Australian context. As in demotion, only one company considered a fine to be an option. Again, this is a reflection of the Australian ethos: it is not a concept that Australians readily accept.

The use of ‘Other internal penalty’ is of interest. Most companies in the Australian context, that consider this issue, discuss the penalties of dismissal and legal prosecution in some detail. In concert with this discussion is invariably the open-ended statement that allows the implementation of a continuum approach to sanctions against breaches of the codes. Understandably the companies usually have an overriding statement that ties the penalty to the degree of perceived infraction. Hence, it makes the code less prescriptive and introduces flexibility which should lead to the judging of each situation on its merits.
The proportion of companies operating in Australia (24.1%) is very similar to that of United States (26.2%) companies who prescribe legal prosecution for wrongdoing against the company. The Canadian figure of 14.7% is lower.

Any discussion of punishment for breaches of the code must be put in perspective. Codes are enforced with negative sanctions but equally they can be founded in positive reinforcement (see Table 7.10 next page). Code content analysis reveals this through references to preserving the corporation’s good reputation and by personal recommendations from Chief Executive Officers. Such positive statements were found in a bare majority of Australian and Canadian codes.

Table 7.10: Code Comparison: Reputation

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General Information

59. Need to maintain corporation's good reputation  46.1  50.7  62.7
60. Letter/Introductory remarks from the President/CEO/Chairperson of the Board  N/A  42.7  50.6

7.5 Conclusion

A cross cultural comparison of Australian, Canadian and US codes of ethics is - despite some sampling differences - revealing. A summary of findings shows:

- Australian codes are less focused on company/government relations than US and Canadian codes.

- Australian codes are marginally less directed to prohibiting bribes and other forms of corruption than US and Canadian codes.
• There is a stronger ‘social focus’ in Australian codes of ethics, including environmental and EEO issues.

• Codes of ethics in all three countries are more concerned with conduct against the firm than conduct on its behalf.

• Code oversight and enforcement is less legalistic in Australia, although a large minority of codes (like in USA and Canada) invoke dismissal as the highest penalty whilst a quarter make provision for prosecution.

• There is marginally greater formal reliance on positive reinforcement by involving reputational benefits and using a message from the CEO or President, than on negative sanctions.

The picture for Australia is generally consistent with that in Canada and the USA, but with one probably significant area of difference. US and Canadian codes seem more likely to have the purpose of promoting ‘non-corrupt’ behaviour and to regulate company/government relations, whereas Australian codes are more likely to express positive community values about the environment, EEO, and the like. In this external aspect at least, Australian codes reveal a difference in purpose that is likely to stem from a different political and legal environment.
Chapter 8

Towards Best Practice: The Australian Experience

8.1 Introduction

Chapters Six and Seven reported data on the incidence of codes of ethics in the top 500 private sector firms, and on corporate commitment to those codes. The survey and code content analysis broadly suggests that a large minority of firms (45.7% of survey respondents) have codes of ethics and perhaps 10% repeatedly meet criteria for high commitment - making substantial resources available, expecting valuable results, and locating significant objectives in these codes. On the survey and code content data, a small group - approximately 10% of the population (of 500 firms) represents best practice. (Appendix I) In this chapter we seek to study a sub-set of this group in greater depth to gain a closer understanding of what represents ‘best practice’ in the application of ethics codes. It may be that these firms are ‘best practice’ relative to the firms surveyed, but what does best practice actually mean? This has yet to be observed and described.

The purpose of this chapter is therefore exploratory. It seeks to establish the actual characteristics of ethical practice in firms that appeared to be best practice in their responses to a survey and in their codes. We do not - at this stage - presume to know what the actual attributes of best practice may be, or even whether these firms have persuasive claims to be best practice after close exploration. That is why this stage of the research is exploratory, guided initially by only the prima facie success of these firms in meeting selection criteria.

The selection criteria were based upon the Reidenbach and Robin, 1991 model that lists the five stages of organisations and outlines the characteristics of each stage in respect to ethics and the organisation. (Appendix E) The assessment made of Australian companies showed ten percent of the survey population in the Stage Four of ‘Emerging Ethical’: the highest stage of development that could be identified. (Appendix I) The artefacts that show this level of moral development in the organisation are mainly that these companies tend to have handbooks, policy statements, committees and ombudsmen. Those companies selected also needed to have:
a. a code that they were willing to submit to public scrutiny
b. measures in place to communicate the ethos of the code to employees
c. procedures to make the code known by either customers and or suppliers
d. expressed a willingness to assist further if so asked.

Representatives of six companies were contacted and their permission sought to send a follow up Stage 2 survey document. Of the six companies that agreed to be surveyed for the second stage, only five responded and only four are reported. The following table lists the basic demographic characteristics of each of the four companies.

Table 8.1: The Companies of Stage 2

<table>
<thead>
<tr>
<th>Case 1: Travel &amp; Tourism</th>
<th>Case 2: Finance &amp; Insurance</th>
<th>Case 3: Waste Management</th>
<th>Case 4: Forestry, Agr, Fishg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>N/A</td>
<td>&gt;$2&lt;$5 billion</td>
<td>&gt;$100&lt;$300 million</td>
</tr>
<tr>
<td>Employees</td>
<td>N/A</td>
<td>1001-5000</td>
<td>501-1000</td>
</tr>
<tr>
<td>Parent Company</td>
<td>USA</td>
<td>Australia</td>
<td>USA</td>
</tr>
<tr>
<td>Code Developed</td>
<td>Own Ideas</td>
<td>Own Ideas</td>
<td>Own Ideas</td>
</tr>
<tr>
<td>Where Code Developed</td>
<td>USA</td>
<td>Australia</td>
<td>USA</td>
</tr>
</tbody>
</table>

The questions asked in the second document were based upon the specific responses by each company to the questions in the original survey instrument.
In effect the Stage 2 survey document interrogated these respondents upon their initial answers. The answers provided in the original document were embedded into the text of the questions for the follow up survey. Hence, each individual was presented with a survey tailored to their organisation. An example of one such document is contained in Appendix G. In addition, each respondent was sent a copy of the completed case study for their acknowledgment that it was a true and accurate record of their responses. From this contact, open-ended interviews were conducted with the personnel of these four companies.

The substance of this chapter will present case study evidence in detail on these four companies, leading to a comparison of their practices in respect to each other and to assist codification of a model of best practice.

8.2 Case Study 1: Travel and Tourism Company

Company Number 1 is involved in the Finance and Insurance Sector and the Travel and Tourism Sector. It has a parent company based in the United States of America. The annual turnover in Australia and the number of employees in Australia were not provided. The company's code was originally put together from its own ideas without reference to any other code. It was compiled within the United States of America.

8.2.1 Foundations of the Code

The code was developed as a direct consequence of the enactment of the US Foreign Corrupt Practices Act (1977). The legislation was enacted to mitigate previous questionable US practices in international business. The use of bribes and kickbacks was the main catalyst for the legislation being enacted. Company 1, as a US international trader, had to abide by the legislation, but they viewed it as an opportunity. They used the legislation not only to commend the worth of the legal practices to the staff, but also to expand and broaden the concept to encompass decision making that focussed upon honesty and integrity in the corporation’s dealings.

The major reason for developing an internal code was to shape the ethos of the document to the business requirements and philosophy of the organisation.
In the establishment of the company code the CEO, Board of Directors and Senior Managers were used. The people mainly used to develop the code were all at the Vice President level of the organisation. The Vice President level is a middle management level in this organisation. Input was co-opted from audit and legal staff members. Once the drafts were ready they were sent to the CEO, Board of Directors and the Audit Committee for each individual’s or group’s input. A benefit of using the Vice President group was that the code team comprised a cross-functional blend of individuals who could bring different perspectives to the process.

This code grew out of legislative intervention by the US government. However, the organisation seized the opportunity and moulded the code to their own specialist business practices. The organisation used, as the major developers of the code, middle management executives whose ideas were reviewed by more senior management. This approach is a different one. Most companies (Ch.6) use the senior managers of the organisation to shape the document. Using middle managers may have a distinct advantage in that the employees may see the code as a document to originate more from the people, rather than one imposed from on high with neither consultation nor representation.

8.2.2 Implementation of the Code

Whilst posters in respect to the code are displayed within the organisation they are primarily aimed at internal staff rather than as mechanisms to alert people outside of the organisation to the code’s existence. Also the organisation uses plaques on employees’ desks to reinforce the message.

The code is communicated to the organisation’s workers by using a booklet and managers are meant to discuss it with their employees. The company booklet on the code is distributed every two years to all employees to ensure ease of reference to the code. Managers are also encouraged to initiate discussion with their staff about the provisions of the code. Videos are also featured when specific aspects of the code need to be emphasised to employees. These methods are used to facilitate discussion of the code which enables all employees to seek clarification about aspects of the code and to comment upon the appropriateness of the code.
New staff are inducted in respect to the code by using a booklet and a presentation. The booklet is a resource that people can easily access. A full day induction occurs with employees. The introduction to the code is but one part of that day. The code is emphasised as the cornerstone of the company’s business practices and the training ensures that employees are exposed to this concept from the first day that they enter the organisation.

The company sees the induction day as being effective but it recognises that the employees must have ongoing reminders in respect to the code. The organisation runs additional awareness campaigns on selected issues: specific issues are raised during monthly team briefings. The resources used comprise: the booklet, videos, and desktop reminders.

Employees are encouraged to discuss with their management any potential breaches of the code that they may perceive. Individuals are expected to report breaches of the code. This reporting is expected if the person either has breached the code themselves or knows of others who may have breached it. If reporting a breach to a line management person was a problem for the employee, then other avenues exist within the organisation for facilitating discussions on the matter. Once a breach has been reported, the person to whom the report has been made must assess it and then, if appropriate, refer it on.

A process is put in place that allows discussion and a resolution of the situation. If a serious breach has occurred then all staff will be made aware of the nature of the matter through an internal memorandum. A manager, to whom a breach has been reported, must treat the matter with the utmost seriousness and investigate the matter in a professional manner.

The company representative said that the nature of the breach will govern the monitoring procedures. Relevant sections of the organisation who have responsibility in ensuring that such breaches do not occur in their areas monitor the situation. If it has been a legal breach, the company’s legal staff become involved whereas if it has been a human resources breach, the human resources department will monitor the current practices.

The company values the ethical performance of every employee. It uses a ‘360 degree’ assessment procedure. This assessment process necessitates: input from
supervisors, colleagues, and the staff reporting to the person. The employee is required to do a self-appraisal. The reports provided by others are anonymous. The methods used give a balanced view of the employee’s performance from a number of perspectives.

The employee assessment occurs on a yearly basis. A multi-choice questionnaire containing approximately 100 questions is answered. Additional space is provided so that respondents can focus upon strengths and weaknesses of the individual. In the case of a manager, the questionnaire is completed by all direct reporting staff, superiors and approximately six colleagues. The person concerned must fill in the self-appraisal form. At the time of the annual performance review each employee will receive face to face feedback on their ethical performance.

The guaranteed anonymity when answering the questionnaire, protects those individuals when they are asked to provide assessment. The person, about whom the report is made, is protected because a group of individuals provides feedback on the individual’s performance, allowing for a balanced view. Bias and prejudice by respondents may be mitigated by the numbers of individuals that would be asked to contribute to the overall assessment.

The company conducts not only appraisal on the staff but the staff have the opportunity to do an appraisal on the company. Each year the 70,000 employees internationally are surveyed on a range of issues including meritocracy, leadership, diversity. The results from these survey responses are analysed and then action plans for the ensuing year are developed to address those issues which are deemed to require attention.

If an employee commits a breach of the intent of the code then the severity of the breach determines the response of the organisation. Usually, staff are counselled and perhaps even disciplined. Termination may follow in extreme cases. The company links one’s performance in this area into the company’s overall performance measures that then directly impact upon annual bonuses, pay increases and one’s promotion opportunities.

There are guidelines in place to encourage employees to provide information in respect to possible breaches. The annual survey of the company by employees revealed a reticence on the behalf of employees to report such matters because
of their fear of retribution. As a result, the office of the company ombudsman was established to protect individuals being involved in the whistleblowing process.

As stated earlier, employees have a duty to report potential breaches even if the breach has either not occurred or that they suspect that it could have happened. Reports are to be made to the appropriate company representative.

An internal investigation results from every report. The company considers the intent of the breach. If the breach was a premeditated one, then it is dealt with more harshly than an unintentional breach of the same magnitude.

Disciplinary action is taken against any employee who encourages a code violation or sanctions it or perpetrates it; or fails to report a violation or hides it; or who retaliates personally or indirectly through others against the person who made the report; or any supervisor who was derelict in their duty by not attending to a violation.

If an employee makes a false report in a miscreant manner, then they will be dealt with according to company discipline procedures. A person is not penalised, if in all good faith, they alerted the company to a suspicion, that proves, upon investigation, to be groundless. The process is monitored by the party who is responsible for investigating the situation.

The company guarantees anonymity of individuals in the process. Protection for all parties involved is assured. The person accused of the breach must be heard on the matter and a full investigation must be instituted to ensure fairness.

The company examines, discusses and revises the code biannually. The time period selected is adequate as it refreshes the focus of long term employees.

The process that is put in place during the examination, discussion and revision stages is a well structured and formalised one. A multi-departmental Task Force is established by the company’s head office. The individuals concerned come from Legal, Audit, the Secretary’s office, Compliance and Public Affairs. These individuals bring a cross-functional, multi-disciplinary approach to the process. In the six months prior to the issuing of the new code, the Task Force
meets on average at least twice a month. The Task Force reviews the provisions of the current code and examines new ideas that may need to be incorporated. If it is necessary that modifications need to occur then they are implemented. The code is reissued with the new provisions included and staff are reminded of some provisions through a memorandum.

The company uses its code of ethics to guide its strategic planning. Whilst this is not a formal process, the philosophy of the code underpins the organisation’s actions. This philosophy is the basis for the company’s planning directions and initiatives.

The organisation has developed measures that facilitate a successful implementation of the code and its ethos. The code is displayed in the organisation ostensibly for company staff but outsiders would, in the course of every day business, be exposed to it. The induction of new staff features the code as an integral part of the introductory process to the life and values within the organisation.

The company has extremely well developed measures in place to detect breaches of the code and to judge the ethical behaviour of the employees. The 360 degree reporting procedure is an excellent way of ensuring that fair and just evaluation will be made of an individual. The ability for staff to review the performance of the company is an excellent idea especially when staff will see changes and improvements to company practices as a result of the responses that they have given. The linking of pay increases, annual bonuses and promotion opportunities to one’s ethical performance in the organisation indicates to employees, in the strongest possible terms, the importance of the need to perform in an ethical manner. The protection for whistleblowers is formally espoused ensuring the security of the rights of all parties. The code is a dynamic document that is revised periodically through a formal review process. The code also provides the philosophical foundations that guide strategic planning. Company 1 has in place extensive formal mechanisms to try to ensure that the ethos of the code is a living part of the culture of the organisation.

8.2.3 Complementary Activities to Augment the Code
As mentioned earlier, the company has a Task Force to oversee the code and its implementation. This group is similar to a standing ethics committee. The group also has the responsibility for tracking the appropriateness of the provisions of the code and ensuring that individuals within the company practise ethical business. The Task Force also is responsible for introducing amendments to the code. It meets on a semi-regular basis.

The group tables information relating to breaches, legislation changes and any other issue deemed to be of relevance. Any changes that the group suggests to the code are drafted by the company’s Legal department. A set format for idea generation does not exist. The group is left to its own discretion to flag issues that they decide need to be addressed. Any changes are disseminated either via a memorandum from the Chief Executive Officer’s department and/or the code is reissued.

Ethics training occurs for the staff of the organisation because the organisation sees ethical behaviour as being important for ‘the good of the business’. Also in some instances, Company 1, as a requirement of them securing a contract, has to apprise their employees on certain issues. This situation occurred in its US operations. A requirement was that all employees around the world would be trained accordingly. The issues, in which training was required, were data security and the protection of client and company data. These issues, one could assume by their very nature, had the potential for some ethical concerns on the part of the company awarding the contract.

Training is by face to face presentation and by the use of video presentations. In subsequent training after the induction day, the content of that training is on an issue needs basis. The topics considered are those that are relevant at the time of training. There is no prescribed curriculum. The topics considered can cover such issues as: discrimination, harassment, fraud, security, and the moral issues inherent in the company’s philosophical perspective.

The training is conducted by specifically trained facilitators who are company employees. These employees are selected by senior management because of their perceived commitment to the company’s values. Hence, they can be perceived as role models.
Company employees do not appear to have a say in shaping the curriculum. There appears to be no direct formal involvement other than as participants in the annual ethics survey by the organisation. The responses given in these surveys shape the curriculum. Furthermore, during the actual training courses issues can be raised with the facilitators and the other group participants. The company does use some real life situations in its training especially in the areas of security and privacy.

There is no direct assessment of participants after the training course. Indirect assessment is used through a tracking mechanism that examines feedback through the company’s performance surveys and if the individual were to commit a breach of the code. The performance of the trainer, however, is assessed after the presentation. Participant feedback is collected through an evaluation form.

The ombudsman and the department of the ombudsman are viewed as an ‘alternative channel’ for company employees to raise issues of concern. Confidentiality is guaranteed. The role, assumed on the part of the ombudsman, is one of neutrality, in that the position is designed not to be a ‘representative of management’ or an ‘advocate of the employees’. The ombudsman’s role is as a sounding board in respect to concerns. The desire is to hopefully resolve problems before the magnitude of them becomes unmanageable, or detrimental to either the organisation or the individuals concerned.

The ombudsman has the power to refer individuals to the ‘appropriate avenues’ to resolve issues; to identify and resolve issues before they escalate; to investigate issues and incidents and to support not ‘usurp’ the company’s channels of communication and authority.

The powers of the ombudsman are limited. Action can not be taken without the express permission of the individual who has raised the issues. The only exceptions would be if the behaviour under investigation had been deemed to be illegal or the practice could lead to safety issues that may jeopardise people’s well-being.

The ombudsman retains complete confidentiality. No formal records are kept and all cases are coded to protect the identity of individuals. The company has
‘extensive security measures’ in place that protect the integrity of the ombudsman’s phone lines, files and office precincts.

The company has implemented a specially designed selection process. This process is used as a ‘template’ by the Ombudsmans’ Association of America. The company has constituted a committee of seven individuals charged with the responsibility of ‘screening, interviewing and testing candidates’.

The selection process is an involved one. The candidate is initially pre-screened according to the required person specifications. The criteria listed here by the company are exhaustive. The person specification appears rigorous. One needs to have the skills to interact with all levels of the organisation; be well educated preferably to post graduate level; have been a role model for company values; be a leader, a manager and a first class communicator; and also have the courage of their convictions to challenge anyone within the organisation in the pursuit of what would be regarded to be morally right.

Then, three of the seven members conduct an interview with the individuals selected. Other information and input is also considered. The data includes that accumulated for the candidate’s business unit during the annual survey of employees. The company also checks internal reference points such as peers, supervisors and subordinates of the candidate. The final selection procedure involves interviews with senior company management.

The company has substantial mechanisms in place to augment the code. There are some that stand out as being particularly noteworthy. The use of employees in a training role who have displayed commitment to the corporation’s values is an excellent initiative. The company uses the trainers as not only trainers but as role models who have practised the values inherent in the company ethos. The selection of the ombudsman is a comprehensive process that seeks to find the best candidate. The individual who is chosen is expected to ensure that the security of the employees is maintained and to make an impartial judgement of issues.

8.2.4 The Code and the Community

The nature of company business means that the company needs to protect its customer group from unwanted invasions of their privacy. Hence, the
organisation makes customers aware of the code to keep faith with their customers and the company philosophy.

In respect to privacy, the company publishes information about its principles in bimonthly publications to customers. Customers can receive a copy of the privacy provisions and make decisions about how the company uses the information that it has on each customer.

The company recently ran a mail out in respect to maintaining customer privacy and out of 300,000 invitations to customers the company did not receive one request for more information.

The company conducts regular ‘quality checks’ to ensure that what they hope may happen with their customers actually does. It uses random sample techniques to survey people who come in to contact with the organisation. The aim of these surveys is to compare the service expectations of people against their actual experiences with the company. On an annual basis the company also sets targets for the levels of customer service satisfaction that it wishes to attain.

Suppliers are informed of the code and receive a copy of it to ensure that they comply with the company’s standards. The company provides verbal advice to suppliers and uses an internal publication designed to foster an achievement of quality with suppliers. It would appear that suppliers are supportive of the company’s requirements. A comprehensive measurement system has been instigated to track the performance of suppliers when they deal with the company.

The company believes that the code has an impact upon the bottom line because it reduces the incidence of fines, negative publicity, corporate waste and low morale.

The code has assisted the company with resolving ethical dilemmas in the market place. The company examines the advertising copy and direct mail that it sends out. It also has a prescriptive gift policy that outlines acceptable and unacceptable gifts. Impropriety is to be avoided at all costs.
Company 1 uses a range of measures to deal with these ethical dilemmas. These measures comprise a reliance on the code of conduct coupled with a respect for all legislation and industry awards. The company also uses the services of regulatory bodies from whom it can seek advice.

The intent of the company is to prevent issues from becoming bigger ones by resolving ethical dilemmas before they become legal complications. These problems and their resolution are communicated to all employees where it is deemed appropriate.

The company uses ‘comprehensive Reward and Recognition programmes’ to honour individuals who have made an outstanding contribution to the organisation in any area of endeavour. Ethics is an area in which employees can be honoured.

The company focuses its efforts in respect to the code and the community to foster positive relationships between itself and its customers and suppliers. The desire to ensure that minor ethical dilemmas are dealt with effectively before they have the opportunity to become bigger is an excellent concept to pursue. The formal setting of customer service levels and the use of mechanisms to see if these levels have been attained is an extremely positive measure to reinforce theory and practice.

8.2.5 Points of Interest raised by Company 1

Company 1 has implemented a number of measures that could well be considered as aiding the development of best practice in Australia.

The use of the middle management level as the group to develop the code may enhance employee acceptance, or at least mitigate the tendency by employees to be dismissive of edicts and pronouncements from senior managers.

360 degree performance assessment enables employees to be a part of the assessment of performance as assessors and not just as always being continuously assessed. The company initiative to give employees the ability to comment upon the company is an excellent idea. It makes them feel as though their opinions count and reinforces to them that they are stakeholders in the organisation whose opinions appear to be valued by the company.
By linking ethical performance to judge annual bonuses, pay increases and promotion the company reinforces that it is serious about the commitment to ethics. It also means that individuals are rewarded tangibly for a positive attitude in this area.

The selection procedures for company ethics trainers and the company ombudsman are comprehensive. These procedures attempt to appoint an individual who lives by the ethos of the organisation. Each of these individuals is a role model for others in the organisation. One could assume that as such there is a greater degree of credibility involved in the message that the trainers, in particular, espouse on behalf of the organisation.

The role and powers of the ombudsman are of interest because of the nature of the way that the job has been positioned. The ombudsman is there to be impartial and to act for the good of all parties without fear or favour. The lengths to which the organisation goes to protect the security of issues discussed in the ombudsman’s office are excellent. The security of identity of the individual again communicates to employees the commitment of the company to act ethically in its dealings and to protect the integrity of the issues that employees raise with the ombudsman.

The company sets customer service performance criteria. These criteria give employees tangible guidelines against which they can measure their performance. It is of interest that customer service is raised in the light of an ethics survey. (It has been a personal contention of the researcher that an organisation can not espouse customer service values without in some measure addressing the corresponding need for the company to be ethical in its dealing with its customers. If an organisation is not focussing its employees on being ethical and dealing in an ethical manner with customers then surely the company will not achieve levels of customer satisfaction to which it wants to aspire.)

The reward and recognition programmes recognising outstanding achievement in company activities, including ethical performance, are another tangible way that the organisation reinforces its commitment to its employees to practise that which it preaches. Rewards and recognition are also excellent reinforcers of the behaviour that companies wish to have displayed on their behalf.
8.3 Case Study 2: Finance and Insurance Company

Company Number 2 is involved in the Finance and Insurance Sector and the Property and Business Services Sector. It is an Australian owned company with an annual turnover of greater than A$2 billion and less than A$5 billion and between 1001-5000 employees. The company’s code was originally put together from its own ideas without reference to any other code.

8.3.1 Foundations of the Code

The code was established in 1992. This step was taken to meet company expectations following the excesses of the 1980s. No single incident prompted its development. The code arose out of an increasing emphasis on ethical issues.

The company has an inherent belief in its own ability to do things to the best of industry practice and therefore it developed its own code. It strives for excellence but sometimes it ‘reinvents the wheel’. The code was viewed as being a reflection of company standards which the company believes exceed legal standards. The company believed that it was important that the code be drafted in a manner which reflected the culture and activities of the organisation. It was also seen as paramount that the senior management including the CEO and Board of Directors showed commitment and leadership to the code. External lawyers were used in order to provide legal benchmarks and experience from their work with other organisations.

8.3.2 Implementation of the Code

Whilst the code is not displayed in the organisation it is referred to in the annual report of the organisation.

The code is communicated to the organisation’s workers by using the company magazine and through discussion at internal management courses. The
company magazine is a document that all employees receive. Therefore, the message is reinforced. Discussion, the organisation believes, is the best way to consider the ethical dilemmas that one may face in business and personal life. These issues can then be interrelated with the code of conduct and its requirements.

New staff are inducted into the company in respect to the code by the use of seminars and management courses. The company believes that these methods are extremely effective. The reason being that there is a genuine level of ethical awareness engendered amongst staff. This belief is based upon the observation that within the organisation there is an ‘almost total absence’ of allegations in respect to unethical conduct against members of staff.

Due diligence officers have been appointed in each of the organisation’s companies. The nominated person is usually the company secretary. When management courses are conducted, various line managers lead sessions devoted to ethical issues.

The company does have consequences for a breach of the code. The obvious breach with legal consequences is easy to assess. The company encourages open communication with senior management and relies on peer pressure to ensure compliance. The organisation believes that the term ‘breach’ is perhaps too black and white when in an instance of unethical behaviour it is not so definite. Often the poor judgement of an individual rather than an intentional improper behaviour is a major factor.

There are no formal procedures in place to discuss a breach of the code with staff. The company fosters open and honest communication and contends that the integrity of all parties is protected through strict confidentiality. The company’s focus is upon the resolution of the issues at hand rather than the punishment of individuals.

An employee’s ethical performance is a criterion for employee appraisal and it is determined by a review by superiors. The company’s ethical performance is considered to be the most important core value of the group. Therefore the supervisor is used to perform the review. The assessment is conducted using observation; a review of conduct and feedback from other sources including clients and contractors from outside of the group of companies.
The companies within the group each have different policies in place to protect all parties during the process. These different policies are tailored to suit the needs of each company. The basic tenet of such policies is to specify the personal responsibility of each employee and to guarantee that matters of an ethical nature will be handled in a confidential manner.

If an employee has been given a report that does not meet company standards then the employee would be given a clear warning about the behaviour that would be regarded to be unacceptable. This warning is documented. If the behaviour continues, a second warning is issued and if it still persists, a termination of employment occurs. In unusual cases external counsellors may be used.

The company always considers the appropriateness of any business decision from an ethical perspective. The company seeks solutions with which employees will be comfortable and which will not damage the reputation of the organisation. Based upon this premise Company 2 uses the code of ethics to guide its strategic planning in a manner which it deems to be comprehensive.

There are no set procedures to determine if the process has worked during the planning stage. The company however carries out general business reviews in which the process is monitored.

8.3.3 Complementary Activities to Augment the Code

The company does have a standing ethics committee or its equivalent. The reason for the existence of the standing ethics committee is based on the belief that the company’s ethical reputation is its most important single attribute and must be safeguarded. The committee meets three times per year. The committee is comprised of non-executive directors. The committee meets with other executives and attends to and addresses issues that are involved with the code of conduct, audit and compliance. The committee refers to its charter for existing and acts accordingly.

Company 2 has an ethics training committee. The company uses this training committee to ensure a proper awareness of, and a raising of, the organisation’s ethical standards. A focus of the committee is to facilitate the generating of ideas on how to resolve ethical issues facing the organisation. The committee
tends to focus on issues affecting the entire group that require an ‘integrated focus’. The committee meets only when a new programme is to be established. The issues that it discusses are determined by the input of senior executives who have had to address ethical issues. The company also seeks input from lawyers and outside advisers such as The St James Ethics Centre.

The ethics training, which is conducted, challenges the individual to confront their own ‘fixed views and prejudices’. Case studies, debate and analysis are used to foster the need to question oneself. This process is intended to lead to an ‘informed conscience’.

The topics for training are taken in the form of case studies from actual incidents that have occurred or are perceived as being probable that company employees may face. This approach makes the training more than an academic exercise and focuses upon the pragmatic needs of the business.

A wide range of issues is considered. These include reading another company’s confidential material; noticing financial impropriety on the part of a senior manager; dealing with law enforcement agencies in Australia and overseas; misleading conduct; sexual harassment; and conflict of interest. The company uses workshops, discussions and book modules to enhance the training experience.

8.3.4 The Code and the Community

The existence of the code is something of which the company is proud. Therefore, they wish to share it with their customers. This public sharing of the code has led to the organisation concluding that its image and reputation have been enhanced. The response has been both positive and supportive. The code is disseminated through annual reports and when the organisation puts proposals and tenders before prospective customers.

The company supports the philosophy of practice reflecting company values with customers, by ensuring that there is an immediate response to any allegations that are made. Aligned with this practice is the fact that senior
management are involved in all processes in respect to dealings with customers.

Suppliers are also informed of the code through the use of the annual report and in discussions relating to contractual arrangements with them.

The company believes that customers and contractors not only expect but demand high ethical standards of behaviour. The morale of employees and their productivity is enhanced by having a code. Government departments are now initiating probity checks and a code assists in this area.

The code has assisted the company with resolving ethical dilemmas in the market place in the areas of advertising, competitors, customers, environment, suppliers and own salesforce.

The company can gauge its performance by using a number of measures. Direct feedback is used. Written commendations from satisfied individuals on the one hand and a record of complaints on the other hand give an indication of the success of the resolution of these dilemmas. Also the company has had to satisfy government authorities that they are complying with the code. The fact that this compliance has been formally acknowledged by the investigating authorities is used as a measure of the effectiveness of the procedures in place.

The ethical dilemmas are discussed openly amongst the peer group to try and resolve the situation. The resolutions of these dilemmas are communicated to those individuals who attend training sessions.

8.3.5 Points of Interest raised by Company 2

Company 2 has raised some practices that are noteworthy and may contribute to best practice.

Training challenges an individual to have an ‘informed conscience’. This is an excellent principle in that staff are allowed to develop themselves in this area under the directed guidance of the training programmes constructed by the organisation. The principle also highlights to individuals their personal responsibility to think and act in ethical ways.

The training committee raises ethical issues confronting the organisation. This idea is a proactive approach that attempts to follow the model of consistent
improvement rather than going into damage control mode when a problem arises. Being proactive also enables the company to foresee potential situations and develop a number of rationales for handling them.

The company, in respect to a breach of a code of ethics, has a view that punishment is not the main focus of the exercise. The organisation contends that it is not a black and white issue. Individuals often just make mistakes or poor errors of judgement. This philosophy is a most positive one. It engenders a belief in staff that one can make errors and mistakes without the fear of eternal company retribution and damnation. This environment can foster decision making and entrepreneurship. Company individuals exist in an environment which facilitates action and individual assessment in each matter rather than compliance to the rules for fear of punishment.

Strategic planning seeks a solution with which employees are comfortable. As strategic planning is the stage at which organisations determine their business direction for the next time period: it is an integral part of a company’s business practice. During the strategic planning stage, business goals are set and the means by which these strategies will come to fruition are determined. The dilemmas for individuals in business often come about when the measures selected to implement the strategies force individuals into personal conflicts with their value systems. By allowing staff members to comment upon and, to be comfortable with, the strategies and the measures in place to implement them, the risk of dissonance is reduced.

The use of clients and contractors as a part of the performance appraisal system, albeit an informal one, is another measure that is interesting. This use of the perceptions of outside parties enables the organisation and its staff to obtain an external, objective opinion of their performance as perceived by the individuals with whom they interact on the company’s behalf. This method is a positive way of determining if the perceptions that the company wishes to portray in the market place are those which will be observed by others.

The company has an immediate response to customer allegations. Also senior management are always involved in all processes that directly relate to customer satisfaction. An immediate response is essential in today’s world of business not only to maintain customer confidence but to avoid potential public castigation through trial by media. This immediate response would also
engender confidence amongst customers and would lead, one hopes, to a long
term business relationship.

8.4 Case Study 3: Waste Management Company

Company 3 is involved in Waste Management and Environmental Services. The company is the Australian subsidiary of a multinational company. The company has an annual turnover of between A$100 million and less than A$300 million. It employs between 501-1000 employees.

8.4.1 Foundations of the Code

The code was established in 1994. The impetus for a code came from the multinational parent who had recognised that there was a growing public concern in respect to the way that companies practised their business. The company itself had even experienced some criticism. Critics had questioned its practical implementation of its philosophical commitment to ethical business practices. The company therefore decided to reaffirm its position and produced a more definitive statement of its publicly stated environmental and ethical standards.

The company developed its own code. The group believes that its reputation is critical to its continued success. The company wants to achieve recognition around the world in respect to its ethical and environmentally sound practices. Within Australia, Company 3 is striving to be the pre-eminent company in its field. The philosophy behind this push is to focus on using ‘state of the art systems’ which are responsive to customer needs coupled with a well developed environmental policy and a determination to achieve the ‘highest standards of corporate citizenship’. Hence, an internally developed document would allow them to focus solely on their own needs and develop a code based upon the philosophical business mission of the organisation.

Senior management constructed the code because it was perceived that they had a comprehensive understanding of the business. Thus, they would be able to tailor a code that was in accordance with the direction in which the business wished to go.
8.4.2 Implementation of the Code

The code is not displayed in its entirety for the public to view. This is not done for any negative reason but because the document is twenty-one pages in length and its configuration does not lend itself to display. However, the company does display from its code, its 14 point Environmental Policy. This policy is integral to the company’s every day business dealings in the Waste Management business.

The code is communicated to the organisation’s workers by using personal presentations, video presentations and the distribution of handbooks. These methods are seen to be the best way to convey concisely the message the company intends to impart. The use of personal presentation is extremely valuable because it enables a feedback session to be incorporated in all presentations. This two-way discourse between presenter and audience has often produced valuable information upon which the company has been able to act.

The company inducts new staff in respect to the code by: a handbook in the induction package, discussion of it, and Ethics in the Workplace Seminars. The company hands out the handbook format to employees at the time of induction because the company can be sure that each person in the organisation has ready access to a copy of the code. However, just providing a copy is not regarded to be satisfactory. All employees are subject to the company’s personal presentations in the Ethics in the Workplace Seminars to ensure exposure to, and continuing education in, the ethical philosophy of the organisation.

Company 3 has neither any set nor any published consequences for breaches of the code. Each case is handled individually. The severity of the breach will determine the course of action: from counselling, to disciplinary action even to termination of employment.

A case by case basis is used to discuss a breach. The company does not have any formal procedures. The person who is alleged to have committed the breach is spoken to by that person’s line manager and, if necessary, by senior management. If the abuse involves sexual harassment, the company possesses a published complaints procedure which is administered by the Human Resources Manager.
The integrity of the parties concerned is not a particular focus of the organisation. Managers, by the very nature of the position that they hold, would be expected to conduct themselves in the highest possible ethical manner and hence the company contends that integrity would automatically be assured.

The monitoring of a breach is an individual matter which is exercised at the discretion of the division or branch manager. Contraventions involving legal issues are monitored by the Corporate Head Office.

An employee’s ethical performance is a criterion for employee appraisal determined by a review by superiors. The company conducts annual performance appraisals by supervisors and managers to whom employees report. As an adjunct to this process, the company uses corporate compliance in its annual certification of key employees in the organisation. The range of issues considered involves: compliance with company policies on ethics, fair business practices, conflicts of interest and political contributions. The process is the means by which the company, on an annual basis, can communicate to its key employees the need to examine these important company philosophical precepts. It is hoped that as a motivational tool it will encourage employees to re-examine these company policies. The key personnel targeted are: all company officers, and salaried sales, marketing, project development and government relations personnel.

The annual compliance document is in the form of a questionnaire. Once the questionnaires have been completed, a report is prepared by the organisation’s General Counsel on each of the organisation’s companies. These reports are made to the audit committees of the respective boards of directors. The report is focussed on the results of each company’s compliance certification process and the legal compliance record of the company for the preceding year.

The integrity of all parties, although regarded as being important, is not a particular focus of the organisation. The ethics policy itself should guarantee the implied need for protection. Staff are expected to provide complete and accurate answers to the survey document.
There are no set guidelines for counselling an employee who has not met company standards in these areas. As in other areas of company life the circumstances of the situation would dictate the appropriate course of action.

The code is not subject to a formal review. It is, at this stage, only two years old. However, the parent company employs a Vice President-Ethics and Environmental Relations. The role of this job is to ensure that there are training and communication tools so that company staff understand the importance of ethics to the group’s success.

In 1996 the company co-opted the services of the Australian Competition and Consumer Commission to help them with a programme developed in the area of Trade Practice Compliance Education. Officers of the Compliance Education Unit of the Commission have addressed all levels of company personnel around Australia in an attempt to raise the awareness of staff. The company will also focus upon the Hilmer Reforms/Competition Policy. However, the current code is intended to continue to be the code of ethics document of the organisation.

The company does not conduct a formal review in Australia of the code. The responsibility for ongoing ethics training and related employee education is that of the Regional Legal Counsel and the Human Resources Manager. These individuals are deemed to have the relevant knowledge, expertise and background knowledge to make an assessment of what is required to ensure that the process of ethical education continues.

8.4.3 Complementary Activities to Augment the Code

The company in Australia does not have a standing ethics committee but it does have procedures to handle queries, concerns or complaints. Again, it is the Regional Legal Counsel and the Human Resources Manager who bear responsibility for these activities.

Ethics training is conducted for the staff of the organisation. It is viewed as an integral part of the corporate culture. The training consists of oral presentations, videos and the distribution of handbooks. The content and the structure of these training sessions is set. The topics that are considered are those that are key issues in the code. Regional Legal Counsel conducts the
training as that person is seen to have the prerequisite knowledge of the company’s business and an appreciation of the ethical issues confronting individuals within the organisation. In respect to the training curriculum, individual employees have the opportunity to comment on their perceptions of the performance of the company in relation to ethics, business and environmental issues. This feedback is used in reports to senior management. The feedback, when acted upon, brings changes in the way that the organisation functions.

The company ombudsman’s role is filled by Regional Legal Counsel and the Human Resources Manager. They are expected to address any complaints from staff about unethical conduct. They then have the delegated authority either to act upon the complaint or to refer it to other individuals within the organisation.

**8.4.4 The Code and the Community**

The fact that the company has an ethics programme and an environmental policy is received favourably by customers. The company believes that it distinguishes them from the competition and one assumes leads to a competitive advantage. Customers are exposed to the company’s policies: during sales presentations, tenders and when they receive promotional correspondence/literature. As mentioned earlier, the code itself, due to its size, is generally not made available to customers.

The mechanisms put in place to ensure that what one hopes will happen with one’s customers actually does, relies upon training as being the key to success in this area.

Company 3 sees the code of ethics assisting its bottom line in terms of expanding the business and developing strong relationships with the customers and the community. In Australia in the last decade, *Trade Practices* and *Environmental Legislation* have assumed a considerable importance. Leading Australian multinational companies, with whom Company 3 has done and is doing business, have factored into their contract or tendering arrangements conditions which specifically relate to business ethics and environmental compliance. Hence, to participate in the market place the organisation must be able to establish a commitment in these areas.
The evidence available to the company to support its belief that it is doing well in this area is that the company continues to win business based upon its platform of ethical business practices and responsible and responsive environmental policies. The company does not consciously monitor the impact in this area of the code. In terms of company performance, being able to secure new and repeat business is seen as the barometer to gauge the success of its approach.

The code has assisted the company with resolving ethical dilemmas in the market place in terms of: advertising, competitors, customers, suppliers, employee/employer relationships. These real life experiences are used in training.

8.4.5 Points of Interest raised by Company 3

There are three distinctive ideas emanating from Company 3. However, Company 3 is involved in a number of practices that are practised by other companies in the second survey group. These mutual practices will be considered in the conclusion to this chapter.

Each year the company requests its key employees to sign a compliance agreement. The objective of this practice of the employees is to ensure that, on an annual basis, they focus upon their own ethical performance during the past year. It is hoped that it will focus their attention towards the ensuing year as well.

Once these compliance agreements have been signed, the organisation compiles a report for each of the organisation’s companies. These reports give an indication of the performance of the company in the preceding year. This enables the company to address any issues that arise from the composite report. Hence, it is a good way of being proactive and identifying areas of concern and taking action in respect to them.

The company acknowledges the existence of a code in all of its dealings with its customers. Customers are exposed to the company’s policies during: sales presentations, tenders and the company’s promotional advertising and literature. This is a concentrated effort in ensuring that the company’s message is received by its customers.
8.5 Case Study 4: Forestry Company

The final company is involved in Agriculture, Forestry and Fishing. The annual turnover of this New Zealand organisation is greater than A$5000 million. The company employs between 10000 to 20000 employees. The code was originally put together without reference to ideas from other companies.

8.5.1 Foundations of the Code

The company code was established in 1992. It took approximately two to three months to develop. The code was developed to provide focus and direction for the organisation. This focus was aimed at trying to stress qualitative goals desired by the organisation. The company developed its own code because it believed that it was the most attuned to the ethical considerations and aspirations of the organisation. The company staff were aware of the practical every day situations with which they were confronted and hence were better placed than anyone else to construct a company specific document. Also the company contends justifiably that it was in the best position to be able to communicate these values to the employees in a manner that was able to integrate with the way that the company conducted its business.

The CEO and senior managers were deemed as the people to be in the best position to establish the code for the organisation. They were the people who would set the direction of the company and therefore their support would be needed to make the implementation of the code possible and credible. Not only would these individuals be needed to add credibility to the code but they would, on a day to day basis, be responsible for administering the code.

8.5.2 Implementation of the Code

The code is displayed in the organisation for people both within the organisation and outside of it through the use of annual reports, posters in the foyers of all of the company’s plants and facilities, and it is also featured in various other publications. The company sees a number of benefits in displaying their code in these ways. The company believes that this overt display of the code enforces further commitment to the code. The perception of
customers, suppliers and stakeholders that the company is ethical is a tangible benefit that the company believes will assist them. The company believes that their statements on ethical business practices will influence by example, the general business and public environments to pursue ethical business practices. They hold a firm belief that their corporate culture is worth sharing with others. They wish to conduct business, if possible, with other like minded ethical organisations. The code is communicated to the organisation’s workers by using a number of methods. These methods include personal presentations, video presentations and brochures. Personal presentations enable the company to put a human face on the code. The presentations also allow staff the opportunity for interaction on the code. For management it enables the staff to give feedback on the code. Video presentations are also used because they are attractive and able to be readily understood. The benefit of using brochures is that they give an overview of the code. Brochures also can be referred to at a later time at the employee’s convenience.

The company inducts new staff in respect to the code by explaining it in great detail to them. The staff conducting these sessions impress upon new employees the fact that ethical compliance is an important part of the corporate culture. From the outset, employees are told they should consider the code in terms of everything that they do with the company. The company believes this method of instruction to be effective, but at this stage they do not have a definitive opinion on how successful it has been.

The company does have consequences for incidents that others may deem as a breach of the code but, the company stresses that a breach of the code is not the way that the company perceives it. The breach is against the employment contract between the staff member and the company. To be viewed as a breach it must be objectively identifiable against a clearly articulated standard. The procedures that are in place to discuss such a breach must conform to the law of the land. These procedural safeguards are zealously patrolled by the courts and individuals must not be seen to be deprived of their individual or collective rights to natural justice. Hence, all breaches at first must be discussed with the employee. This discussion ensures the preservation of the positions of both parties.

The company does monitor a breach and whether that breach has ceased. However, the severity of the breach will dictate the course of action. If the
breach is a gross one with significant legal consequences and or ramifications then the Corporate Legal Department will maintain control. All environmental breaches are handled by the Environmental Department. Lesser breaches are dealt with by the person’s immediate supervisor.

An employee’s ethical performance is a criterion for employee appraisal. Ethical performance is determined by a review of superiors and against formal company standards. The company integrates ethical compliance with other measures of success within the company. It gives all employees an incentive to be ethical and a well understood way to be rewarded for being so. The philosophical thrust is to ensure that ethical compliance will be central to job performance.

The company conducts six monthly reviews between superiors and subordinates. The review is not just a review of past performance but a forward planning mechanism. Each manager’s performance is directly impacted upon by the performance of their subordinates. The system is formalised and structured so that each employee must account to their line supervisor for their own and their subordinates’ behaviour in the previous six months. The process is part of a wider company review procedure. The process is formalised and well understood at all levels of the company. If one abuses the process then the person perpetrating such abuse will be invariably negatively assessed by their supervisor.

A staff member who appears not to meet company standards will receive counselling from their supervisor. The supervisor will agree targets with the employee and a timetable for achievement of these targets. In these circumstances the review process for this individual may be shortened from six months.

The company examines, discusses and revises the code every two years. There are some advantages in the selection of this period of time. The time period is long enough to evaluate the code and experience will have been gained in respect to it. Yet, two years is also a short enough period of time, for the process will be understood because of some retention of ‘institutional memory’. If the period was shorter than two years the process would be too onerous on those participants who are involved in the review process.
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There is a well developed procedure in place for the review. The company will canvass representative members of the organisation at all levels. There are discussions held which focus upon particular problems, incidents and issues that participants have experienced. Once these have been considered and the code provisions reviewed, the company circulates draft changes to a smaller, higher level group within the organisation.

The review process involves all levels of the organisation but primarily senior executives and technical compliance people from Legal, Environmental Health and Safety are used. The representatives of the company at lower levels of the organisation are used because they are involved on a day to day basis with the code and the organisation’s attendant publics. They are able to assess the practical application of what is in place and what is being proposed. The senior executives are involved because they set the direction of the company and, as stated earlier, must support the process for it to be taken seriously. Compliance personnel are used for their knowledge of the technical and legislative changes in what is a continually dynamic area.

The modifications are implemented in a number of ways. The update is made in the form of a comprehensive manual which is circulated and publicised. The company changes the content of its presentations to reflect the new code. If the changes to the code are major and likely to perhaps affect some areas of the organisation more than others, then those affected may receive specific presentations on those pertinent areas.

The code of ethics is considered when the company is involved in its strategic planning. The company believes that ethical behaviour is both a constraint on strategy, in that no strategy must be unethical and also ethical behaviour must be a goal of planning. The company should be perceived as being highly ethical. The company monitors if the process has worked during the planning stage. The first line of monitoring are company employees who would be all aware of their company’s ethical obligations. The company’s Corporate Legal area has a special responsibility to vet plans for compliance with the company’s ethical obligations. The process is monitored to see if it is working after the planning stage by the fact that as ethical behaviour is a strategic goal, it is examined in the context of the overall strategic planning framework.

8.5.3 Complementary Activities to Augment the Code
A standing ethics committee is maintained by the company. The reason for this committee is that ethical behaviour is a central mission of the company and crosses a wide range of technical disciplines whilst touching on every aspect of the company. Therefore the issues raised in the area of ethics need to be addressed on a company wide basis.

There is no planned timetable for the committee to meet. It is convened in response to ethical issues which surface and that the company needs to confront. The committee works like a project planning body. It reviews and discusses recurrent ethical issues that have appeared company wide and then it decides upon the best course of action to take in each instance. The order of the discussion of the issues is on a priority basis. The outcome of the discussions is conveyed to the manager or work group who raised the concern and the most appropriate committee member discusses the issue and the outcome with them.

The company also has an ethics training committee. This committee has been formed to raise an awareness of the need to address and promulgate minimal ethical standards within the company. At present it is meeting infrequently due to a change in the composition of the committee. The committee sets priorities for issues and needs and then develops a training programme which it takes to the various company sites.

Ethics training is conducted for the staff of the organisation. The training is conducted to ensure that all employees know that ethical behaviour is expected and to outline what the company considers to be ethical. Training is also used to educate staff members as to technical compliance issues.

The training that occurs is comprehensive yet lively. A number of methods are used. These include: a manual, video presentations, brochures, personal presentations and workshops and periodic update newsletters. The topics included in the training are determined by the level of the audience, the industry segment, the issues faced in the past and if requests have been made for particular training. The range of topics is all encompassing from discussion of the perennial conundrum of ‘what is ethical?’ to practical examples of anti trust behaviour.
The training is conducted by designated compliance personnel within the Corporate Legal department. These people are supported by business group legal counsel and sometimes local legal advisers. These individuals are deemed to be the best people to conduct the training because they are familiar with the issues, the business and they have expertise in the local technical requirements of the company.

Employees can have input into the curriculum by requesting topics to be covered. There are also formal feedback procedures in place to comment on the form and the content of the presentations. The performance of the participants is not assessed during the presentations because the company wants to encourage attendance and promote a relaxed atmosphere amongst participants. The company has an ombudsman whose role is to ensure that all points of view will be represented. The powers of the ombudsman enable the person to be an integral part of the ethical compliance system. The views of the ombudsman are reflected in internal performance review procedures and strategic planning procedures. The person chosen for this role is usually an experienced compliance presenter with legal training who is plain spoken and independent from influence.

An ethical audit is conducted by the company. This is done to identify issues and areas of concern and to endeavour to establish a base from which performance and improvement can be measured. The audit is also carried out to once again reinforce the company’s commitment to ethical compliance. The ethical audit is conducted as a part of the overall compliance audit. Information is collected from documentation, correspondence and discussion with managers and interactive presentations to staff.

The findings are evaluated in the standard audit report supplied to managers and superiors highlighting good and bad areas. Shortfalls highlighted within the report are specifically identified and these areas of concern are examined and remedial action is planned and taken. The responsibility to monitor these changes is on the shoulders of the facility manager. The audit is repeated at a later date and the results of the previous audit and the current one are compared to see if the improvements have been successfully implemented.

8.5.4 The Code and the Community
The company informs customers of the existence of the code. The reason for doing this is to inform them that they are dealing with an ethical company. The company also believes that customers should see the company’s commitment to being ethical as being a ‘non-price benefit’ of doing business with them. Another benefit that the company perceives is that the company, by professing its commitment to ethical values, may in turn encourage ethical behaviour amongst the customers. The benefit to the company, it is hoped should be to reduce business risks.

The company uses annual reports, posters in facilities, magazines and trade publications to inform customers of the existence of the code. In general, the responses to the code by customers are positive. Customers appreciate the commitment to ethical values. The company is able to ensure that the practice meets the philosophy because being an ethical organisation and having a code should create a barrier to doing business with unethical customers. The company has a set ethical standard and it will not budge from these centrally held beliefs.

The suppliers to the company are also informed of the existence of the code and the company’s philosophy. The responses by suppliers mirror those of the customers. Suppliers in many cases profess a similar commitment.

The company sees the code assisting its bottom line in terms of profit by being a focus for employee efforts; explaining the rationale for actions and assisting in the development of the corporate culture which translates into more cohesive work practices. The reason for believing that these results occur is that by having well defined and espoused ethical rules of behaviour, should supplement the legal rules inherent in business and should assist in reducing risk to the business. By ensuring that all staff act ethically, the business, it is hoped, may be free from the need to compensate either customers or suppliers for the risk of doing business with the company and hence, the company makes more money. These ideas are only perceptions of the organisation because the evidence to support these beliefs is anecdotal at best.

The code has assisted the company with resolving ethical dilemmas in the market place in the areas of competitors, customers, the environment and product quality. The company has mechanisms in place to reveal this information. The company makes extensive use of the reporting of incidents
which are brought out in periodic audits, performance reviews, the strategic planning process and in code reviews. When these ethical dilemmas are raised, they are dealt with through discussions with peers, superiors and, if needed, technical compliance personnel. However, one can not escape the basic truth that in the end, when one faces an ethical dilemma that it comes down to the personal decisions and subsequent behaviour of individuals. It is hoped that these individuals will act in the light of the company’s norms. The resolutions of these dilemmas are sometimes used in presentations to staff but more often than not the company believes that they are of too great a specificity to be communicated as best practice.

8.5.5 Points of Interest raised by Company 4

Company 4 highlights some interesting practices that were not found with the other three companies. These practices tend to revolve around the organisation’s monitoring of its performance through periodic reviews such as audits that the organisation conducts on its own performance.

The company conducts a six monthly performance review of all of the staff. This period of time appears short. Yet, it enables the organisation to address issues of concern on a more regular basis than the more generally held yearly review. It assists the organisation and the individual staff members to be more focussed on their performance, including their ethical performance. It also allows remedial action to occur more quickly.

During the formal review process of the code the company ensures that those employees who have day to day contact with the customers of and suppliers to the company will get to review the code. It is deemed rightly that as these employees will interact with the workings of the code, on a daily basis on behalf of the organisation, that they then will be able to identify more easily any inconsistencies between philosophy and pragmatic practice.

In respect to training, employees can request topics to be scheduled in the curriculum. This is a sound practice because it personalises the code to the problems that workers face in their daily employment. It also gives the employees a feeling of ownership and a sense that they are involved in directing the company’s focus rather than being purely directed by it.
The company runs comparative audits. The initial audit is conducted and recommendations are made for improvement and or modification. Then, at the time of the next audit, the progress in the identified areas of the previous audit will be reviewed. Again, this measure is one way of focusing the employees on constant improvement against previous benchmarks set. The audit report also enables each manager and supervisor to be apprised of the areas in which their own departments may be remiss and upon which they will be able to work in the ensuing time period.

8.6 Comparisons Between the Four Companies

The purpose of this section of the chapter is to compare the four ‘best practice’ companies for similarities and differences. What are the common elements of best practice, and is it a ‘uniform’ or ‘varied’ set of characteristics?

8.6.1 Ethics and Corporate Philosophy

The codes were developed from each company’s own resources usually by senior executives of the organisation. They felt that they had a better understanding than any one outside of their organisation possibly could have had. Each company knew itself best and knew the direction that it wanted to take. The market place in which the company operated also needed to be assessed as did the impact of the market place on the code. The company felt that it was in a stronger position to conduct this assessment than outside individuals.

Whilst having a belief in their own intimate knowledge of their work place, their plans and their requirements, the companies recognised that they were not experts on ethics. Consultants were used to assist. These consultants ranged from The St James Ethics Centre in Sydney, to the Australian Competition and Consumer Commission, to individual experts in the area of ethics and business. These organisations and people deemed to be experts in ethics were used to give input into the business in an attempt to aid the company’s quest to be ethical.

Endeavouring to be ethical was a pervasive idea in all that the companies did and planned to do. Strategic planning was set against the background of setting
company strategy and goals in the light of ‘company conscience’. The company focussed not only on what the company perceived as being acceptable to the market but also as being acceptable to their own employees. Before the final plans were accepted and then implemented they were compared against the company’s ethical beliefs.
The philosophical stand that each company took was that ethical business practices were a cornerstone of the company’s psyche. Ethics was inextricably bound up in all that the company had planned to do and hoped to achieve.

8.6.2 Pragmatic Application of the Philosophy

This section examines how ethical philosophy of the organisation is translated into action within the organisation and the impact that it has upon the staff of each organisation.

One fact that came across strongly for all four companies was an inherent belief in the integrity of the staff. Whilst each company had review provisions in place for company and individual performance the general belief was held that staff were able to be trusted. This belief impacts upon the way that one structures the staff relations. The policemen philosophy of always needing to monitor the unprofessional individual took a secondary role to fostering staff who are ethical. None of the companies were naive enough to assume perfect adherence to the company’s ethical principles. However, the philosophy of trusting the staff was thought to inspire a partnership rather than a custodial relationship.

Each company did try to foster staff understanding of ethics. Without exception, ongoing training occurred for staff. This training was conducted through a variety of media to make it more enjoyable, interactive and readily understood by participants. Employees were encouraged to be interactive partners in the process by suggesting subjects to be studied and giving feedback not only on the training received but on the company’s ethical performance as they saw it in their every day dealings.

In an effort to constantly improve, each company had in place procedures to monitor the performance of the organisation. These reviews and audits were designed to lead to an understanding at any given time of the organisation’s performance in the market place. Ethical performance was one of the areas
considered. The shortfalls in the performances were corrected and the company took another step towards better practice.

There was a recognition that ethical issues would constantly arise in a company’s business dealings. Hence, each company had put in place procedures to deal with ethical conflicts. The common theme of each of these procedures was that discussion was seen to be the best way to resolve the issues faced. Peer groups and work groups were seen to be the main vehicles to resolving such issues. The ethical issue was a collective company problem and therefore it should be resolved through discussion and consensus. Once a resolution had been decided upon it was promulgated to all of those individuals who could be directly impacted upon by it or who should know of it because of their related work. Again the spirit of collegial discussion about these issues is fostered to bring not only resolution, but ownership and a collectivist approach amongst company staff.

All of the companies seemed astute enough to recognise the possibility that an employee may do something that appears to be against the code or may witness the behaviour of someone else who may not live up to the ideals of the code. The role of an ombudsman was utilised extensively to protect the integrity of all parties in these situations. The ombudsman’s role was to give employees the confidence to approach a neutral third party who is also aware of the intricacies of the company and doing business on its behalf.

A blatant breach of the code was handled by all companies in a sensitive manner in respect to the rights of the parties concerned. It is in this area of a breach that the overlap between the law and the company’s ethics is evident. The content of a code can not by itself be seen as the benchmark for wrongdoing. An employee can be counselled or reprimanded and/or even have one’s employment terminated, yet the defining document is not the code. It is the law that governs the infraction of the employee and ensures that the employee has the right of redress in these situations. All parties must be protected in these circumstances and breaches are handled with particular care. It must be stressed here, as it was by the companies, that it is a breach of the employer-employee relationship which takes precedent over whether it may also be a breach of the code. This point highlights that codes do not have a legal standing but are documents put in place to ensure behaviour, it is hoped, that will exceed legal expectations.
Each company took their belief in the worth of ethics and developed a partnership with their staff to the mutual benefit of all parties. Companies therefore trusted their staff and tried to do what they could to foster a common ethical vision for the organisation. If the aim is to foster a common ethical vision to improve the performance of the organisation then has this been successful and therefore been reflected in the bottom line?

8.6.3 Philosophy and Pragmatism: Do They Lead to Profit?

In Chapter 2 the relation of ethics to profitability was discussed. It is noticeable that the four companies did comment upon this area. The belief was that there appeared to be a positive correlation between philosophy, pragmatism and profit. The argument is not, that one should be ethical because one will increase profit, but that the companies involved have highlighted this as a benefit that they have witnessed.

The companies expressed a wide range of views in this area. However, the general consensus was that there was a positive response by both customers and suppliers to the company’s efforts in trying to be ethical. Two of the companies revealed that companies for whom they had provided tenders specifically requested only to deal with organisations espousing an entrenched ethical value system. Each company maintained that their ethical perspectives were well received in the market place and as their reputation for being ethical increased then so did their bottom line. They had become trusted by the market to deliver on their promises and to conduct business in a way that was mutually beneficial to the company, the customers and the suppliers. Of course, these contentions were not quantified by the companies and may be no more than aberrations on their behalf. However, they do believe that by being ethical can lead to improved company performance in the market place. This in turn they believe leads to greater financial security and ultimately to a greater profit.

8.6.4 Towards Best Practice: the Australian Experience

The companies that are considered in this chapter were highlighted because they were different to the ‘average’ Australian companies surveyed. These four appeared to be further advanced than other organisations in enshrining the code into company practice. Each one of the four companies has tried to
achieve best practice in a number of different ways. Whilst, they all strive for best practice, no two companies are the same in the way that they go about trying to achieve it. There appears to be no prescriptive way to achieve best practice. One constant amongst them all is that they appear to have a high level of commitment to ensuring that their organisations display an ethical persona in both their internal dealings and those dealings that occur in the market place.

Best practice in this country is not just a matter of having a code and revealing it to the market place. It is putting in place those company procedures and support mechanisms that bring the ethos off the page of the code and into the every day workings of the organisation. It is about supporting staff through training; through the protection of whistleblowers; and through the discussion of ethical issues. It is about involving the staff so that they feel a part of the team that is trying to do business better and in a more ethical manner. It is a matter of seeing ethics as a cornerstone of the business and framing one’s strategic planning accordingly. The company must be focussed on constant improvement and monitor its performance at all levels of the organisation both internally and externally. The dealings with external publics and stakeholders must be conducted in a manner which makes the principles of the code obvious to everyone.

Best practice can be achieved only through a proactive, committed company that translates the company’s ethical philosophy into tangible measures. What makes some companies the leaders in this field is that the senior managers and the staff have a collective state of mind that ethics is worth pursuing, and it is hoped not just for the extrinsic benefits of profit but for the intrinsic rewards that being ethical can bring.

The aim stated at the beginning of this chapter was to look for more intensive evidence of the ways that companies in Australia try to foster best practice ethics within their organisations. How committed are they to this ideal of best practice? The major conclusions drawn from the Stage 2 investigations are that:

- Where the initial survey showed evidence from these companies of a serious commitment towards fostering ethical behaviour, it can be said that this claim was not illusionary but appeared to have substance: these four companies were taking intensive measures to achieve their aim of an ethical culture.
• All of the four companies are extremely active in the area of ethics yet each one is examining the issue and resolving it differently.

• It leads one to conclude that best practice can be inherently different but no less effective. That whilst none of the companies uses all of the tools and procedures that are possible and recommended, they can still be functionally satisfactory.

It appears that best practice is not confined to a comprehensive checklist that must be followed in order for one to be implementing effective procedures that enhance ethical practices in organisations. Not one of the four companies studied in Stage 2 uses all of the possible tools at their disposal to enhance the ethical perspective of their organisation. However, all of them monitor the way that the business is performing from an ethical perspective and modify their procedures accordingly. It is this commitment to ongoing investigation and implementation of change that not only leads to best practice but defines it. It is this constant evolution of new processes and perspectives that makes best practice a fluid concept. The four companies that were reviewed do exhibit best practice ethics of a high standard and hopefully the standards that they and others set will redefine the concept of ethical best practice in Australia.
Chapter 9

Conclusion

9.1 Introduction

The objective of this thesis was to examine two questions. First, can businesses adopt codes of ethics in a meaningful way, or are business ethics a contradiction in terms for profit seeking organisations in competitive markets? Second, to what extent do Australia’s top 500 private sector firms show commitment to codes of ethics? This last question was broken down into several subsidiary questions:

- How committed are Australia’s top 500 companies to codes of ethics in terms of incidence, development, implementation, communication and perceived benefit?

- What do the objectives of Australian codes of ethics tell us about the purpose of commitment in this country relative to the USA and Canada?

- What does a close examination of four ‘best practice’ cases tell us about the nature of high commitment to ethics and ethical artefacts?

To date this subject has attracted limited, systematic attention from researchers in Australia. Consequently, this thesis was primarily concerned with laying definitional and empirical foundations rather than debating the finer points of established argument. The purpose of this chapter is to review the arguments and evidence presented earlier, and to provide a succinct answer to the questions posed above.

9.2 A Review of the Theory Underpinning This Study

Chapters One to Four dealt with the question, can businesses adopt codes of ethics in a meaningful way, or are they a contradiction in terms for profit seeking firms in competitive markets? Chapter One introduced this question,
placing it in the context of contemporary interest in codes of ethics. The following points were raised:

- Interest in codes of ethics has grown since 1987, perhaps stimulated by the poor ethical climate of the 1980s, globalisation, and tendencies to self regulation.

- Ideas upon business ethics have a long history, especially in the USA, although there appears to have been substantial growth in interest in the USA, UK and Australia recently.

- Much of this interest in business ethics is channelled into codes of ethics which are defined in terms of formality, good conduct, influence on employee norms and beliefs, and influence on actions. Codes of ethics and of conduct were also distinguished, the former being more general and the latter more explicit in detail.

- The validity of meaningful codes of ethics was questioned both in terms of their relation to profitable behaviour when the two conflict, and the relevance of guiding moral choice in hierarchical organisations. What is the value of a code if it is over-ridden by profit seeking or by direct instruction?

This last question focussed theoretical analysis in Chapter Two which looked at definitional issues associated with business ethics. In this chapter a definition of ethics was found elusive because of the theoretical division between deontological and teleological schools of thought. Logical reconciliation of the two was found elusive, good being either individual/institutional or social/utilitarian - defined by personal moral values or collective social consequences. While our preferred definition of ‘ethics’ for business purposes is teleological we have difficulty with its relationship to internal moral values. For example, good may be equated with acts which have good consequences for a firm, but how can this be reconciled with the (perhaps religious) belief of individuals who would classify the same acts as bad? This moral dilemma lies at the heart of our questioning the meaningfulness of business ethics.

One approach to resolving this dilemma is the reductionist one of Friedman - that ethical considerations are superfluous to business which need be guided
only by profit motives. This reductionist view was rejected as either trivialising ethics or failing to resolve the dilemma outlined above.

While the deontological/teleological dilemma persists at a philosophical level, at a psychological and sociological level it can be resolved. Chapter Three looked at models of ethical decision making which combine in their empirical field both deontological and teleological approaches to business ethics. Both individual moral formation and wider culture play a part in fusing (empirically) the two distinct approaches. In Chapter Four the sociological foundations of business ethics were explored in more depth, looking at corporate culture as a dominant factor in implementing moral content into managerial decisions. Further, corporate culture may be shaped by and embody ethical codes.

It was concluded at the end of Chapter Four that codes of business ethics can exist in a meaningful way. Codes of ethics may play a role in communicating a leader’s ethical expectations, guiding culture and balancing ethical acts against conventional ‘non-ethical’ profit-maximising behaviour. Business ethics are not a contradiction in terms for profit seeking organisations in competitive markets. In fact, the ideas may be complementary not antagonistic. Companies can and should adopt codes of ethics in ways that can be meaningful to them internally within the organisation and externally in the market place. Thus, the stage was set for an empirical investigation of the role of codes of ethics in Australian business which would answer the second question listed above.

9.3 Summary of Research Findings

To what extent are Australia’s top 500 private sector firms committed to codes of ethics? The concept of ‘commitment’ to codes is a central one to the empirical research conducted for this thesis. It is not, however, a simple idea that can be translated into a solitary quantitative measure. Rather it is a complex idea that can be approached from a number of different directions. Commitment can be signified at a threshold level by having a code, but is having a code enough? Is it important or marginal? We looked at commitment in terms of the following issues:
• Inputs (the commitment of time and resources in developing, implementing and communicating the code)

• Outputs (the perceived benefits which flow from the code)

• Objectives (the role the code plays in terms of prescribing ethical behaviour for internal and external publics, and governments or regulators)

• Best practice (what are the characteristics of best practice business ethics?)

To focus empirical investigation on commitments to codes of ethics seven questions were asked. These questions were as follows. First, how common are codes of ethics? Second, who developed these codes and why? Third, how are they implemented? Fourth, do companies inform external publics of the codes? Fifth, what are the perceived benefits of codes? Sixth, what does code content reveal about the underlying purpose of the code and does this purpose differ between cultures? Seventh, do the more advanced Australian examples constitute best practice in some way?

To evaluate the use of codes of ethics a three stage research procedure was used. First a questionnaire was sent to the top 500 Australian companies (based on revenue) – firms which, for several reasons, are most likely to have developed a formal ethical code. A response rate of 68% was achieved with this Stage 1 survey, 53% returning a completed questionnaire. The second stage involved content analysis of 83 codes of ethics supplied by survey respondents. The third stage involved more detailed follow up of a small group of firms that appeared to be close to best practice. Findings for Stage 1 of the research (the survey) are reported in Chapter 6. Chapter 7 discusses the analysis of code content comparing with similar US and Canadian findings. In Chapter 8, findings for Stage 2 (cases of best practice) are reported. The survey design and rationale for question selection of the initial research instrument are described in Chapter 5.

9.3.1 The Incidence of Codes

Question 1 is focussed on the frequency of code usage amongst large private sector firms. The primary evidence indicates extensive usage. A large minority
of survey respondents (45.7% or 121 of 265) possessed codes. A further 58
(21.9% of survey respondents) claimed they would have a code by the end of 1997.

The incidence of codes varied according to a number of demographic variables. Incidence was highest in two industries – Finance and Insurance (54.9%) and Manufacturing (47.2%) compared with all other industries (38.0%). Large firms (measured by financial turnover and employment) are more likely to have codes than smaller ones. While the overall incidence of codes appears to be high and growing, it was noted that we cannot know their incidence for the population of the top 500 firms. Response bias would be present causing incidence amongst respondents (45.7%) to be higher than incidence in the population.

The incidence of codes in the population (of 500) suggested by this survey is likely to be below 45.7% and above 27% (perhaps a third, overall). This would be low compared with Berenbeim’s (1995) findings that over 84% of comparable US companies, 66% of Canadian and 50% of Europeans have codes.

9.3.2 Methods for Developing Codes

Codes can be framed for a company in two different ways. First, a ‘generic’ code can be borrowed, saving the company the task of drafting what may be a problematic document. Baumhart (1961) has shown that early American codes of ethics were developed in this way most often through the development of industry specific codes. Second, a code may be drafted to meet the individual needs of a particular company, taking account of its strategy, products, customers and other contingencies. Survey data tells us that a large majority of Australian codes were either company specific or were modified and tailored to company circumstances from an industry based code.

Where such development or customisation occurs within the company it is important to identify who was involved in this process. Our survey data show that the development of ethical codes in Australian firms tends to be the prerogative of senior managers. Lower level managers, employees and stakeholders are rarely consulted. This process may have inherent weaknesses. A code imposed from above by senior management may be less influential upon staff lower down the hierarchy who see it as imposed, and who do not
therefore ‘own it’ psychologically. Similarly the exclusion of external stakeholders from the preparation of the code may reduce its influence upon them. To the extent that code effectiveness depends upon moral persuasion rather than coercive enforcement, a drafting process left in the hands of a few senior managers represents a lost opportunity to win consent.

9.3.3 Implementing Codes

The implementation of codes can occur in two ways - first the adaption of existing processes and second the creation of special processes. Reliance on the former is probably fundamental to real commitment to a code. However, ‘high’ commitment is most clearly signalled by the second.

Adaption of existing processes can relate to communication with employees, induction, discipline, staff appraisal, and strategic planning. We found that most firms with codes communicate them to employees, use them in induction, and associate them with disciplinary measures. More than two thirds also use them in appraisal, but less than half use them in strategic planning.

When one investigates the special measures to support the inculcation of ethical values at the organisational level there appears to be some shortfall. In particular, there is a failure to use ethical codes and the supporting measures available to companies to model corporate culture. The supporting measures of ethics committees (25.6%), ethics training committees (14.9%), ethics training (33%), ombudsman (19.8%), an ethical audit (38%) and procedures to protect whistleblowers (25.6%) appear in only a small number of companies who possess codes. The measures, which should be implemented to ensure that there is a link between code implementation and review of employee and company performance, are not activated. Without support for employee education or the protection of whistleblowers then expectations of ethical behaviour may be unfounded. In general, it seems that the introductory measures for codes of ethics appear satisfactory but follow up training and implementation appear to fall down.

9.3.4 Communicating Codes

Question 4 asked whether companies inform stakeholders of both the existence of a code and also of its content. The researcher was also interested in
discovering whether companies perceive that having an ethical commitment has assisted profitability. The link with stakeholders is that, it is the marketplace that impacts on profitability. We have already noted that communication with employees is almost universal. More problematic is communication with external stakeholders, especially customers and suppliers.

The dissemination of codes is handled slightly differently by companies for suppliers as compared with customers. Customers, when informed of codes, are briefed in an informal manner. When a code is discussed with suppliers it is more likely to be introduced in a formal manner. This may be because of some difference in the power relationships with suppliers and customers. Organisations have power over suppliers from whom they may withdraw business if performance is not satisfactory. However, in their relationship with customers, power usually lies with the customer. Hence, organisations may be reticent to reveal a code because of the fear that customers may use a perceived disparity between the code and actual practice to criticise the organisation.

9.3.5 Perceived Benefits

When asked whether a code of ethics has any perceived benefit (Question 5) there was a range of responses. A majority of respondents with codes (74.4%) rated them effective, 58.7% thought that they helped profitability and 39.7% considered that they helped resolve ethical dilemmas. Regarding profitability, firms’ responses were classified as altruistic, mercenary, regulatory and residual. The mercenary and regulatory motives are closely linked, with both centred upon improving, either directly or indirectly, aspects of financial performance. Hence, it is an indication that perhaps ethics are pursued for the financial benefits to the organisation rather than the altruistic reasons of promoting ethical behaviour for its own sake. In practice, research discovered ‘mixed motives’ encompassing both financial benefits and altruistic reward. Respondents tend to not distinguish ‘what is good’ from ‘what is good for business’, seeing the relationship of the two as not being problematic.

9.3.6 Cross Cultural Comparison of Codes and Objectives

Question 6 asked how Australian codes compared with those in other countries. The objectives of this question were therefore two-fold: first, to reveal the objectives of Australian codes, and second to identify differences
from certain comparators. Mathews (1987) was used as a source for US codes, while Lefebvre and Singh (1992) gave data for Canada.

Comparisons revealed areas of commonality between Australia and these two comparators. One similarity was protection for the company (extending to ensuring survival) in relation to national competition laws. Codes in all three countries serve to minimise risk of litigation and corporate liability against successful litigation. Other similarities followed from this. Thus supervisors were uniformly expected to police employee compliance with codes and receive information on breaches; whistleblowing was mandated; and common penalties existed for breaches.

The Australian codes also differed from their comparators. In specifying ‘Conduct on Behalf of the Firm’ the Australian codes had a stronger social focus. Australian codes sought a greater involvement with the community, dealt more with environmental issues, product quality and employee health and safety. Australian codes are also less legalistic than their North American counterparts. This difference (with the United States in particular) arises from the different role that litigation plays in the business system. Also Australian codes do not use external monitors to keep a watch on company performance. Australian codes also have more emphasis upon maintaining a company’s good reputation. To sum up, the content of Australian codes suggests they serve more of a social, educative role and are less likely to be a response to the regulatory environment and the law.

9.3.6 Best Practice in Australia

The final (seventh) research question posed in Chapter 1 concerned the nature of best practice codes of ethics in business. Is there any such thing in Australia, and if so what does it look like? The approach taken to defining best practice was essentially inductive. Rather than imposing the researcher’s definition of best practice, empirical evidence relevant to a ‘loosely’ defined notion of advanced practice was scanned to identify suitable firms. Their ethical characteristics were then reviewed to give substance to the concept of best practice ethics.

Research findings relevant to this task were obtained in the Stage 2 research process which was undertaken to probe in more depth the reality that lay
behind the survey findings discovered in Stage 1 of the research. Four companies were studied in more detail. They were selected on the basis that their responses to the Stage 1 survey suggested that they were especially advanced in developing and applying a code of ethics. In other words, they appeared to constitute best practice within the survey sample group.

The major findings of the survey of the four best practice firms were as follows:

- Each company developed the code themselves to reflect their own specific outlook and business environment. They believed that a customised code would be more beneficial to their organisation.

- Strong business ethics were seen to be an integral part of the totality of the company: the desire to be ethical was linked to all other company functions. An ethical ethos was seen to be a necessary prerequisite for doing business.

- The companies had a firm belief in the integrity of their employees. This belief was extended to the notion of a partnership between all parties including employees.

- Ethics training with a structured curriculum was carried out on a regular basis. The topics studied were often generated by the concerns of employees not just management, making the process interactive.

- Procedures were put in place to deal with ethical issues and breaches of the code that may arise. However, a number of the companies did not see this in punitive terms for their staff but more as an educative process to correct inappropriate behaviour.

- All of the companies saw their ethical beliefs contributing to the company’s profitability. It was also acknowledged that it was not the major motive behind the use of codes but a desirable side-effect.

- These four companies appear to meet standards of best practice on the world stage.

Perhaps most important, the detailed characteristics of best practice are rather unique in each case. The four best practice firms did not resemble each other closely in their specific or detailed approach to designing and implementing
their codes. At an operational level there does not appear to be a simple formula for best practice ethics. Areas of commonality exist only at a level of high generality and broad operational purpose. Defining best practice ethics thus appears to be a matter of identifying appropriate general motives and behaviour patterns rather than finding a detailed template.

9.4 Conclusion

Business ethics in Australia is an emerging and growing area that is beginning to be seen as a positive force in the way that organisations need to do business in this country. As with all new ideas, the process of introduction and change varies from industry to industry and organisation to organisation. Yet, from the results of this study, one can see that many companies are addressing the issues inherent in ethical practice.

The work by Kaye in 1989 and 1990 led to the conclusion that, “... codes of ethics do not have a high profile in Australian business and do not appear to be extensively or rigorously used by Australian companies.” (Kaye 1996:2). This idea appears no longer to hold true. The primary evidence of this study indicates extensive usage. A large minority of survey respondents (45.7%) possessed codes. Furthermore, lending support to the proposition that there has been a rapid growth in the use of codes since the Kaye study, 47% of those codes in existence were established since 1991. These findings are sufficient to substantiate the proposition that usage of codes is growing rapidly and is now relatively widespread. Since 1991, the movement towards implementing codes of ethics has been one of continual growth and increased commitment to having a code of ethics by corporate Australia.

This research has provided evidence to show that codes of ethics are well developed in many of Australia’s largest corporations. These organisations see a diverse range of benefits in developing this area. Companies are beginning to implement not only a code of ethics but other complementary initiatives that reinforce the need for the culture of the organisation to be more ethical than it has been until recently. These organisations see that a code has assisted them in their dealings in the market place and many companies use their ethical values to underpin their strategic planning process. Hence, in many companies business ethics is considered to be at the core of good commercial practices.
Whilst this rhetoric is directed to those outside of the relevant organisations with codes of ethics, there appears to be a general lack of special internal processes to ensure that a code will be reinforced in practice. There is a lack of staff training, ethics committees, whistleblowing procedures, ombudsman and ethical audits. These gaps highlight that the process is still in a transition stage between the initial decision and desire to engender ethical practices in organisations and the establishment of a firm ethical culture.

The fact that Australian businesses are good at introducing codes but appear poor at assisting staff to implement the codes poses a question. This question asks whether codes have been instituted primarily as a public relations exercise, rather than for any ‘proclaimed’ benefits. Are companies committed to codes for the reasons of being ethical or of just maintaining profit? The doubt exists that companies introducing and espousing codes may be involved in a ‘me-too’ practice. Do organisations see their competitors espousing an ethical position which is well received by the community and hence, feel obliged to follow suit?

Some evidence for this ‘sceptical’ viewpoint is the secrecy surrounding codes of ethics. Responses to the request for a copy of a code of ethics were sometimes surprisingly secretive. For example the writer was asked to destroy one code of ethics after reading it and invited to read another under supervision. Many firms also refused to supply codes. Such responses were unexpected. In fact, these situations were contrary to the openness recommended in the literature. One possible explanation for secrecy is that some of these organisations may have seen their ethics codes as a means of gaining competitive advantage. This concept had been suggested by Barker (1993) in respect to his work at General Dynamics in the United States. The idea can also be advanced that some of this secrecy in organisations was from industries that were sensitive to publicity. Hence, they did not want to be exposed to the general community scrutiny because of the fear of the vilification that they might suffer at the hands of interest groups that may not share the same world view.

In defence of these secretive practices, it must also be noted that many companies in Australia are new to the field and may not feel comfortable exposing their low expertise in business ethics. Also, they may not wish to
expose what they consider as proprietary information to anyone outside the company. Specifically, there may also be no attempt to hide information in respect to ethics. A blanket company public relations policy may exist that forbids the disclosure of proprietary company information.

From the responses reported in this survey it is difficult to separate altruism for its own sake as compared to appearing altruistic in the market place for profit’s sake. It is difficult for research of any type which has been conducted to be able to get at the heart of the motives for the actions taken. However, one can not assume that companies that espouse codes as a weapon of competitive advantage are not concerned and involved with the altruistic goal of improving business ethics for the sake of business ethics. Nor can one say that all of the organisations that are open and appear genuine about the issue of ethics in their organisations are all doing it for the ‘right’ reasons. Mercenary motives may well be buried in the company psyche somewhere alongside altruistic ones.

Whilst recognising both secrecy and the existence of deficiencies in the implementation of supporting measures for codes of ethics, the evidence from this study still leads one to conclude that companies are genuine in their application of business ethics and their commitment to elements of it. Very real progress seems to have been made since the late 1980s in Australia, in recognition of the place of ethics in business. Many companies have perceived a real need and are trying to use their code as a blueprint or guide for company activity.

While many companies are trying to make their organisations more ethical, it must be acknowledged that organisations use their code and supporting measures in different ways and that there is not one correct method. Also, organisations are in the developing stages of this movement towards business ethics and are tentatively feeling their way. This tentative approach may be misconstrued as a lack of commitment because not all companies use all of the possible support mechanisms. In a market place driven by the profit motive, many companies appear to be committed to being ethical. However, as with all new concepts one cannot expect Australian companies to instantly use and implement all of the possible ideas in business ethics available to them. It must be recognised that it is an evolutionary process. Australian companies, whilst committed to ethics, need to be given time to implement supporting measures
to enhance an ethical culture. In a few short years, they cannot be expected to jump from novice to expert practitioner. Whilst the journey may well be a long one, at least amongst the largest companies operating in the private sector it has commenced.
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Appendix A: Business Council of Australia Working Paper Group

The paper was produced by the following organisations:

Australian Merchant Bankers Association
Australian Society of Certified Practising Accountants
Australian Stock Exchange Ltd
Business Council of Australia
Law Council of Australia (Business Law Section)
The Australian Institute of Company Directors
The Institute of Chartered Accountants in Australia
The Securities Institute of Australia

Subsequently the Australian Investment Managers’ Group has joined the Working Group.

Appendix B: Definitions of Ethics Expressed in the Literature and by Business People

Definitions of ethics expressed in the literature and by business people

<table>
<thead>
<tr>
<th>Concepts</th>
<th>Number of mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Rules, standards, or codes governing an individual</td>
<td>48</td>
</tr>
<tr>
<td>2. Moral principles developed in the course of a lifetime</td>
<td>25</td>
</tr>
<tr>
<td>3. What is right and wrong in specific situations</td>
<td>24</td>
</tr>
<tr>
<td>4. Telling the truth</td>
<td>23</td>
</tr>
<tr>
<td>5. A belief in social responsibility</td>
<td>18</td>
</tr>
<tr>
<td>6. What is fair and above board</td>
<td>16</td>
</tr>
<tr>
<td>7. Honesty</td>
<td>16</td>
</tr>
<tr>
<td>8. The Golden Rule</td>
<td>11</td>
</tr>
<tr>
<td>9. Sets of values</td>
<td>10</td>
</tr>
<tr>
<td>10. What is in accord with one’s religious beliefs</td>
<td>10</td>
</tr>
<tr>
<td>11. Common behavior</td>
<td>10</td>
</tr>
<tr>
<td>12. Being true to one’s self</td>
<td>9</td>
</tr>
<tr>
<td>13. Obligations, responsibilities, and rights</td>
<td>9</td>
</tr>
<tr>
<td>14. Conscientious work</td>
<td>9</td>
</tr>
<tr>
<td>15. What is good and bad</td>
<td>8</td>
</tr>
<tr>
<td>16. Philosophy</td>
<td>8</td>
</tr>
<tr>
<td>17. Clarification of the dimensions of decision making</td>
<td>7</td>
</tr>
<tr>
<td>18. Individual conscience</td>
<td>6</td>
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<tr>
<td>19. What is legal</td>
<td>5</td>
</tr>
<tr>
<td>20. A system</td>
<td>4</td>
</tr>
<tr>
<td>21. A question of human relationships</td>
<td>4</td>
</tr>
<tr>
<td>22. Theory of justice</td>
<td>4</td>
</tr>
<tr>
<td>23. The relationship of means to ends</td>
<td>3</td>
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<tr>
<td>24. Integrity</td>
<td>2</td>
</tr>
<tr>
<td>25. Concern for what ought to be</td>
<td>2</td>
</tr>
<tr>
<td>26. Reflection on institutional arrangements causing human harm or benefit</td>
<td>2</td>
</tr>
<tr>
<td>27. The principles of Aristotle</td>
<td>2</td>
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<tr>
<td>28. Habit</td>
<td>2</td>
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<tr>
<td>29. A practical science based on logic</td>
<td>2</td>
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<tr>
<td>30. Virtue</td>
<td>1</td>
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<tr>
<td>31. A substitute for leadership</td>
<td>1</td>
</tr>
<tr>
<td>32. Character</td>
<td>1</td>
</tr>
<tr>
<td>33. Rotary Four-way test</td>
<td>1</td>
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<tr>
<td>34. Judging others</td>
<td>1</td>
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<tr>
<td>35. Confidentiality</td>
<td>1</td>
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<tr>
<td>36. Putting God first, others second, and myself last</td>
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<td>37. A public, not private, matter</td>
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<td>38. Situational and temporal</td>
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### Appendix C: Studies Examining the Relationship between Corporate Social Responsibility (CSR) and Profitability

<table>
<thead>
<tr>
<th>Study</th>
<th>Methodology</th>
<th>Performance Criteria</th>
<th>Findings</th>
<th>Implications</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moskowitz (1972)</td>
<td>Simplistic comparison of stock price increases in Moskowitz’ 14 firms with “perceived” high CSR with the average increase in the Dow-Jones Index.</td>
<td>Stock price increases over time (six months)</td>
<td>High CSR firms outperform the Dow-Jones Industrials.</td>
<td>No adjustment for risk; small sample; sample is not necessarily representative of high CSR firms; performance measured over short-term; performance criterion is questionable; no test for significance.</td>
<td></td>
</tr>
<tr>
<td>Bragdon &amp; Martin (1972)</td>
<td>Seventeen firms in the paper and pulp industry were rated on a pollution index developed by the Council of Economic Priorities. Each firm’s index was compared to its ROE.</td>
<td>Return on equity (ROE)</td>
<td>The better the pollution index, the higher the ROE.</td>
<td>No adjustment for risk; findings limited to one industry; limited definition of CSR; small sample; performance criterion is inadequate; no test for significance.</td>
<td></td>
</tr>
<tr>
<td>Bowman &amp; Haire (1975)</td>
<td>Eighty-two food processing firms classified into low, medium, and high CSR categories based on the number of lines devoted to the topic of CSR in corporate annual reports. The CSR categories are compared on the basis of their ROE.</td>
<td>Five-year return on equity</td>
<td>Existence of U-shaped performance curve; the highest performing firms being those found in the middle range of CSR.</td>
<td>No adjustment for risk; lopsided sample; reliance on annual reports and on the CSR firms of Moskowitz; performance criterion is inadequate; no test for significance.</td>
<td></td>
</tr>
<tr>
<td>Parker &amp; Eilbirt (1975)</td>
<td>96 firms that responded to the researchers’ previous CSR survey were assumed to be CSR firms. The profitability of 80 of these firms compared to the Fortune 500.</td>
<td>Absolute net income, profit margin ROE, and EPS</td>
<td>On all four measures, the 80 CSR firms proved to be more profitable.</td>
<td>No adjustment for risk; questionable sample; performance measured over short-term (12 months); performance criterion is inadequate; no test for significance.</td>
<td></td>
</tr>
</tbody>
</table>
Vance (1975)  
Two-fold:  
1. Replicating Moskowitz  
2. Correlating CSR firms derived from two Business and Society Review Surveys with stock price changes over time.  

Stock price increases over time  
CSR firms are determined not to be good investments; negative correlation between CSR and stock price increases.  
No adjustment for risk; questionable samples; performance measured over short-term; regression line does not fit the data; performance criterion is inadequate.

<table>
<thead>
<tr>
<th>Study</th>
<th>Methodology</th>
<th>Performance Criteria</th>
<th>Findings</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heinz (1976)</td>
<td>Correlating CSR ratings of 29 firms from a Business and Society Review survey with ROE.</td>
<td>Several measures such as ROA, ROE, and profit margins</td>
<td>A significantly positive correlation between CSR and ROE.</td>
<td>No adjustment for risk; small sample; questionable sample; reliance on reputational rating system for determining CSR.</td>
</tr>
<tr>
<td>Sturdivant &amp; Ginter (1977)</td>
<td>A population of 67 high CSR firms as identified by Moskowitz in the Business and Society Review are used in a CSR survey. Twenty-three firms returned 130 questionnaires. The 67 firm population is also reduced down to 28 firms and reclassified into four industrial groupings. CSR and the 10-year growth in EPS is examined.</td>
<td>10 year EPS growth</td>
<td>High CSR firms (Best and Honorable Mention) outperform low CSR firms.</td>
<td>No adjustment for risk; employed t-test with very small sample; industrial categories are inconsistent. Many low CSR firms outperform high CSR firms in the same industry group; questionable sample; removal of outliers reduces greatly the differences between high and low CSR firms; performance measure is questionable; failure to identify curvilinear relationship revealed in data between CSR and EPS.</td>
</tr>
<tr>
<td>Alexander &amp; Buchholz (1978)</td>
<td>Replicating efforts of Vance by using reputational ratings derived from Business and Society Review surveys. CSR ratings are correlated with stock price increases over time and adjusted for risk.</td>
<td>Stock price increases over 2 years and 5 years</td>
<td>CSR has no effect on stock market performance; repudiates both Moskowitz and Vance.</td>
<td>Reliance on a questionable sample; performance measure is inadequate.</td>
</tr>
</tbody>
</table>
Abbott & Monsen (1979) developed a Social Involvement Disclosure (SID) scale from a content analysis of Fortune 500 firms. The SID is used to determine CSR firms, which are then compared on the basis of their investment yield.

10 year yield CSR has no effect on the total return to investors.

No adjustment for risk; the SID may not reflect the true level of CSR; the content analysis used is superior to that of Bowman and Haire but is still questionable; performance measure is inadequate.


Appendix D: Kohlberg’s Definition of Moral Stages:

Definition of moral stages

I. Preconventional Level

At this level the child is responsive to cultural rules and labels of good and bad, right or wrong, but interprets these labels in terms of either the physical or the hedonistic consequences of action (punishment, reward, exchange of favors) or in terms of the physical power of those who enunciate the rules and labels. The level is divided into the following two stages:

Stage 1: *The punishment and obedience orientation*. The physical consequences of action determine its goodness or badness regardless of the human meaning or value of these consequences. Avoidance of punishment and unquestioning deference to power are valued in their own right, not in terms of respect for an underlying moral order supported by punishment and authority (the latter being Stage 4).

Stage 2: *The instrumental relativist orientation*. Right action consists of that which instrumentally satisfies one’s own needs and occasionally the needs of others. Human relations are viewed in terms like those of the market place. Elements of fairness, of reciprocity and equal sharing are present, but they are always interpreted in a physical pragmatic way. Reciprocity is a matter of ‘you scratch my back and I’ll scratch yours’, not of loyalty, gratitude or justice.

II. Conventional Level

At this level, maintaining the expectations of the individual’s family, group, or nation is perceived as valuable in its own right, regardless of immediate and obvious consequences. The attitude is not only one of conformity to personal expectations and social order, but of loyalty to it, of actively maintaining, supporting, and justifying the order and of identifying with the persons or group involved in it. At this level, there are the following two stages:

Stage 3: *The interpersonal concordance or ‘good boy–nice girl’ orientation*. Good behavior is that which pleases or helps others and is approved by them. There is much conformity to stereotypical images of what is majority or ‘natural’ behavior. Behavior is frequently judged by intention—‘he means well’ becomes important for the first time. One earns approval by being ‘nice’.

Stage 4: *The ‘law and order’ orientation*. There is orientation toward authority, fixed rules, and the maintenance of the social order. Right behavior consists of doing one’s duty, showing respect for authority and maintaining the given social order for it’s own sake.

III. Post-Conventional, Autonomous, or Principled Level

At this level, there is a clear effort to define moral values and principles which have validity and application apart from the authority of the groups or persons holding these principles and apart from the individual’s own identification with these groups. This level again has two stages:

Stage 5: *The social-contract legalistic orientation*. Generally with utilitarian overtones. Right action tends to be defined in terms of general individual rights and in terms of standards which have been critically examined and agreed upon by the whole society. There is a clear awareness of the relativism of personal values and opinions and a corresponding emphasis upon procedural rules for reaching consensus. Aside from what is constitutionally and democratically agreed upon, the right is a matter of
personal ‘values’ and ‘opinion’. The result is an emphasis upon the ‘legal point of view’, but with an emphasis upon the possibility of changing law in terms of rational considerations of social utility, (rather than freezing it in terms of Stage 4 ‘law and order’). Outside the legal realm, free agreement, and contract is the binding element of obligation. This is the ‘official’ morality of the American government and Constitution.

Stage 6: The universal ethical principle orientation. Right is defined by the decision of conscience in accord with self-chosen ethical principles appealing to logical comprehensiveness, universality, and consistency. These principles are abstract and ethical, (the Golden Rule, the categorical imperative) they are not concrete moral rules like the Ten Commandments. At heart, these are universal principles of justice of the reciprocity and equality of the human rights and of respect for the dignity of human beings as individual persons.

### Appendix E: A Summary of the Moral Development of Corporations

<table>
<thead>
<tr>
<th>Stage in Moral Development</th>
<th>Management Attitude and Approach</th>
<th>Ethical Aspects of Corporate Culture</th>
<th>Corporate Ethics Artifacts</th>
<th>Defining Corporate Behavior</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stage I</strong>&lt;br&gt;The Amoral Organization</td>
<td>Get away with all you can; It's ethical as long as we're not caught; Ethical violations, when caught, are a cost of doing business</td>
<td>Outlaw culture; Live hard and fast; Damn the risks; Get what you can and get out</td>
<td>No meaningful code of ethics or other documentation; No set of values other than greed</td>
<td>Film Recovery Systems; Numerous Penny Stock Companies</td>
</tr>
<tr>
<td><strong>Stage II</strong>&lt;br&gt;The Legalistic Organization</td>
<td>Play within the legal rules; Fight changes that effect your economic outcome; Use damage control through public relations when social problems occur. A reactive concern for damage to organizations from social problems</td>
<td>It it’s legal, it’s OK; Work the gray areas; Protect loopholes and don’t give ground without a fight; Economic performance dominates evaluations and rewards</td>
<td>The Code of Ethics, if it exists, is an internal document; “Don’t do anything to harm the organization”; “Be a good corporate citizen”</td>
<td>Ford Pinto; Firestone 500; Nestle Infant Formula; R. J. Reynolds; Philip Morris</td>
</tr>
<tr>
<td><strong>Stage III</strong>&lt;br&gt;The Responsive Organization</td>
<td>Management understands the value of not acting solely on a legal basis, even though they believe they could win; Management still has a reactive mentality; A growing balance between profits and ethics, although basic premise, still may be a cynical “ethics pays”; Management begins to test and learn from more responsive actions</td>
<td>There is a growing concern for other corporate stakeholders other than owners; Culture begins to embrace a more “responsible citizen” attitude</td>
<td>Codes are more externally oriented and reflect a concern for other publics; Other ethics vehicles are undeveloped</td>
<td>P &amp; G (Rely Tampons); Abbott Labs; Borden</td>
</tr>
<tr>
<td><strong>Stage IV</strong>&lt;br&gt;The Emerging Ethical Organization</td>
<td>First stage to exhibit an active concern for ethical outcomes; “We want to do the ‘right’ thing”; Top management values become organizational values; Ethical perception has focus but lacks organization and long term planning; Ethics management is characterized by successes and failures</td>
<td>Ethical values become part of culture; These core values provide guidance in some situations but questions exist in others; A culture that is less reactive and more proactive to social problems when they occur</td>
<td>Codes of Ethics become action documents; Code items reflect the core values of the organization; Handbooks, policy statements, committees, ombudsmen are sometimes used</td>
<td>Boeing; General Mills; Johnson &amp; Johnson (Tylenol); General Dynamics; Caterpillar; Levi Strauss</td>
</tr>
</tbody>
</table>
Appendix E (cont.)

A summary of the moral development of corporations (continued)

<table>
<thead>
<tr>
<th>Stage in Moral Development</th>
<th>Management Attitude and Approach</th>
<th>Ethical Aspects of Corporate Culture</th>
<th>Corporate Ethics Artifacts</th>
<th>Defining Corporate Behavior</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage V</td>
<td>A balanced concern for ethical and economic outcomes; Ethical analysis is a fully integrated partner in developing both the mission and strategic plan; SWOT analysis is used to anticipate problems and analyze alternative outcomes</td>
<td>A total ethical profile, with carefully selected core values which reflect that profile, directs the culture; Corporate culture is planned and managed to be ethical; Hiring, training, firing and rewarding all reflect the ethical profile</td>
<td>Documents focus on the ethical profile and core values; All phases of organizational documents reflect them</td>
<td>??????</td>
</tr>
</tbody>
</table>

Appendix F: Stage 1 Survey Document

The Public Relations Manager

Dear Sir/Madam,

My name is Greg Wood and I am currently doing my Ph.D. on a part time basis in the School of Management at Deakin University, Geelong.

I am conducting research into Corporate Codes of Ethics in Australian Companies.

I have selected the top 500 private sector companies within Australia, of which your company is one, and I am asking each one of them if they could assist me with my research efforts.

I am interested in obtaining a copy of your company’s Code of Ethics and or Code of Practice and or Code of Conduct if one is in existence. If you do not use these terms to define your document, I would be interested to obtain a copy of the document within your organisation that best approximates one of those mentioned above.

Please find enclosed:

A reply paid envelope
A brief overview of my background
A questionnaire that I was hoping that you would complete for me.

Please be guaranteed that your answers will be treated in the strictest confidence. All information and answers will be placed in an aggregated format ensuring total anonymity.

Thank you for considering my request. I look forward to a reply from you at your earliest convenience.

Yours sincerely,

Greg Wood.
Dip.T., B.Ed.(Sturt CAE.), M.Ed.(Deakin), AFAMI, AIMM, CPM.
Name: Greg Wood

(M.Ed. is in Management Education)

Memberships: Associate Fellow  
Australian Marketing Institute

Member  
Australian Institute of Management

Certified Practising Marketer

Work Experience:

Primary School Teacher - 6 years

Shell Australia Ltd - 8 years

Marketing and Management roles including being the inaugural Regional Manager, Northern Pacific based on the island of Guam, USA.

Tertiary Educator - 5 years

Lecturing and teaching in Management and Marketing programmes at Deakin University, Geelong and Warrnambool and the South West College of TAFE, Warrnambool.

Currently - Lecturer in Management and Marketing, Bowater School of Management and Marketing, Deakin University, Warrnambool, Victoria.

Contact Numbers: (055) 633 538 business  
(055) 612 016 home  
(055) 633 320 fax
Code of Ethics Survey:

Top 500 Companies Operating in the Private Sector in Australia

1995

(STRICTLY CONFIDENTIAL)

Conducted by

Greg Wood
Ph.D Candidate
Lecturer in Management and Marketing,
Deakin University, Warrnambool, Victoria.

August, 1995

N.B. Even if you don’t have a Code of Ethics could you please answer:
Questions 1-7 and 46-48.
Code of Ethics Survey:
Top 500 Companies Operating in the Private Sector in Australia
1995

The research interest inherent in this survey is in respect to Codes of Ethics/Conduct/Practice that are being used in the Private Sector of Australian business.

This survey is being conducted with the Top 500 Companies operating within the Private Sector. The basis of selection is annual turnover or revenue.

The desire of the researcher is to collect Company Codes and Company Information that will give an insight into current Australian practices and in so doing hopefully reveal best practice in this area in Australia.

In the survey the questions are designed to be answered in many cases with either a tick or by placing a circle around the desired response. Several of the questions are open ended which allows you to provide a response upon which you can elaborate. If there is insufficient space for your answer please continue your response on the back of the last page.

If you have any questions related to the completion of the questionnaire please contact Greg Wood: Phone: (055) 633 538 or Fax: (055) 633 320.

Thank you for your time in answering the questionnaire. It will be greatly appreciated.

RETURN DATE: Thursday, 31st August, 1995

SECTION A: ABOUT YOUR ORGANISATION:
Q 1. Nature of Business: (If involved in numerous sectors please identify your ‘core’ business)

(Please tick the appropriate one)

Accommodation, Cafes and Restaurants 1. 
Agriculture, Forestry and Fishing 2. 
Communication Services 3. 
Construction 4. 
Cultural and Recreational Services 5. 
Education 6. 
Electricity, Gas and Water Supply 7. 
Finance and Insurance 8. 
Government Administration and Defence 9. 
Health and Community Services 10. 
Mining 11. 
Manufacturing 12. 
Personal and Other Services 13. 
Property and Business Services 14. 
Retail Trade 15. 
Transport and Storage 16. 
Wholesale Trade 17. 
Other (please detail below) 18.

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Q 2. Home Country of Parent Company:
Appendices

Q 3. What is the approximate annual turnover of your organisation?

Annual Turnover ($million)

<table>
<thead>
<tr>
<th>&lt;$100</th>
<th>&gt;$100</th>
<th>&gt;$300</th>
<th>&gt;$500</th>
<th>&gt;$1000</th>
<th>&gt;$2000</th>
<th>&gt; $5000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

(Please circle one only)

Q 4. Approximately how many equivalent fulltime staff does your organisation employ?

Number of Persons Employed (fulltime equivalent)

<table>
<thead>
<tr>
<th>&lt; 100</th>
<th>101-500</th>
<th>501-1000</th>
<th>1001-5000</th>
<th>5001-10000</th>
<th>10001-20000</th>
<th>&gt; 20000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

(Please circle one only)

Q 5. What is the Ownership structure of your organisation?

(Please tick the correct one)

- Totally Government
- Semi-Government
- Non-Government
SECTION B: BACKGROUND:

Q 6. Your relationship to your parent company is that:

(Please tick the correct one)

a. We are the parent company 1. 
We are not the parent company 2.

if you answered 1 please 'go' to Question 7
if you answered 2 please answer part b and then 'go' to Question 7

b. Does your parent company have a code of ethics?

YES 1. 
NO 2. 
DON'T KNOW 3. 

Q 7. Our company has a Corporate Code of Ethics/Practice/Conduct.

YES 1. 
NO 2. 

if you answered 'yes' please go to Question 8
if you answered 'no' please go to Question 46 on page 21

Q 8. In what year was the Code established?

Year: ............ or Don't Know............
Q 9. Was your Code:

a. originally put together by your company from its own ideas without reference to any other code

   YES 1.
   NO 2.
   DON'T KNOW 3.

or

b. developed from an industry code

   YES 1.
   NO 2.
   DON'T KNOW 3.

or

c. adapted from another company's code of ethics

   YES 1.
   NO 2.
   DON'T KNOW 3.

or

d. adapted from an association's code of ethics

   YES 1.
   NO 2.
   DON'T KNOW 3.

if you answered 'yes' to a please go to Question 10 on page 7
if you answered 'yes' to b please go to Question 13 on page 8
if you answered 'yes' to c please go to Question 18 on page 10
if you answered 'yes' to d please go to Question 23 on page 11
if you answered 'don't know' to all 4 questions please go to Question 28 on page 13
Q 10. Who was involved in the establishment of your company Code?

(Please tick all appropriate ones)

- Chief Executive Officer 1.
- Board of Directors 2.
- Senior Managers 3.
- Other Staff 4.
- Customers 5.
- Others (please detail below) 6.
- Don't know 7.

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Q 11. Why was the Code developed?

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Don't know 1.

Q 12. How long did it take to develop the Code?

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Don't know 1.

Please 'go' to Question 28 on page 13
Q 13. Who from your company was involved in the establishment of the industry based Code from which your company developed its own Code?  
(Please tick all appropriate ones)

Chief Executive Officer 1.  
Board of Directors 2.  
Senior Managers 3.  
Other Staff 4.  
Customers 5.  
Others (please detail below) 6.  
Don't know 7.  

Q 14. Who within your company was involved in adopting the industry Code as your company Code?  
(Please tick all appropriate ones)

Chief Executive Officer 1.  
Board of Directors 2.  
Senior Managers 3.  
Other Staff 4.  
Customers 5.  
Others (please detail below) 6.  
Don't know 7.  

Q 15. When you adopted the industry Code did you:  
(Please tick all appropriate ones)

Adopt it exactly as it was 1.  
Modify it to your company 2.  
Other 3.  
Don't know 4.  
Q 15. (cont.) If you answered 2. or 3. please explain how you changed it:
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Q 16. Why was the industry Code adopted?
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Don't know 1.  

Q 17. How long did it take to develop the Code?
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Don't know 1.  

Please 'go' to Question 28 on page 13
Q 18. From whom did your company adopt its Code?
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Don't know 1. 

Q 19. Why did your company adopt / adapt another company's Code?
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Don't know 1. 

Q 20. Who from your company was involved in the adoption of the other company's Code from which your company developed its own Code? (Please tick all appropriate ones)

Chief Executive Officer 1. 
Board of Directors 2. 
Senior Managers 3. 
Other Staff 4. 
Customers 5. 
Others (please detail below) 6. 

Don't know 7. 

Others:
Q 21. When your company adopted the other company's Code did it:

(Please tick all appropriate ones)

- Adopt it exactly as it was 1.
- Modify it to your company 2.
- Other 3.
- Don't know 4.

If you answered 2. or 3. please explain how you changed it:

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Q 22. How long did it take to develop the Code?

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Don't know 1.

Please 'go' to Question 28 on page 13

Q 23. From which association did your company adopt its Code?

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Q 24. Why did your company adopt / adapt an association's Code?

Q 25. Who from your company was involved in the adoption of the association's Code from which your company developed its own Code?

(Please tick all appropriate ones)

Chief Executive Officer 1.
Board of Directors 2.
Senior Managers 3.
Other Staff 4.
Customers 5.
Others (please detail below) 6.
Don't know 7.

Q 26. When your company adopted the association's Code did it:

(Please tick all appropriate ones)
Q 26. (cont.) If you answered 2. or 3. please explain how you changed it:
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Q 27. How long did it take to develop the Code?
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.............................................................................................................................................

Don't know

Please ‘go’ to Question 28

SECTION C: IMPLEMENTATION OF THE CODE:

Q 28. How is the Code displayed in your organisation?
Q 29. How is the Code communicated to your organisation's workers?

Q 30. How does your company induct new staff in respect to the Code?

Q 31. Are there consequences for your staff if they commit a breach of the Code?

YES 1. 

NO 2. 

If YES, what are they?

(Please tick all appropriate ones)

A Verbal Warning 1.
A Formal Reprimand 2.
A Monetary Fine 3.
Demotion 4.
Cessation of Employment 5.
Legal Action 6.
Others (please detail below) 7.

Q 31. (cont.) Others:

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Q 32. Is an employee's ethical performance a criterion for employee appraisal?

YES 1.
NO 2.

If YES, how are the ethical performances evaluated?

(Please tick all appropriate ones)

Against Formal Company Standards 1.
A Review by Superiors 2.
A Review by Peers 3.
A Review by Subordinates 4.
Others (please detail below) 5.

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Q 33. Do you have formal guidelines for the support of whistleblowers?

YES 1. 
NO 2. 

If YES, what are they?

(Please tick all appropriate ones)

Guaranteed Confidentiality 1. 
A Formal Channel of Complaint 2. 
A Formal Investigation Process 3. 
Others (please detail below) 5. 

Q 33. (cont.) Others:

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Q 34. How often does your company examine, discuss and revise the Code?

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Q 35. Does your company use its Code of Ethics to guide its Strategic Planning?

YES 1. 
NO 2. 
DON’T KNOW 3. 

If YES, how is the Code of Ethics used?

(Please tick all appropriate ones)

The process includes 2, 3 and 4 listed below or 1. 
The Code is the basis of the Planning Philosophy 2. 
The Code is consulted during the Planning Process 3. 
The Finished Plan is compared against the Code 4. 
Others (please detail below) 5. 

SECTION D: COMPLEMENTARY ACTIVITIES TO AUGMENT THE CODE:  
(Please elaborate for each answer in this section if you wish)

Q 36. Does your company have a standing ethics committee or its equivalent?

<table>
<thead>
<tr>
<th>YES</th>
<th>1.</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO</td>
<td>2.</td>
</tr>
</tbody>
</table>

Q 37. Does your company have an ethics training committee or its equivalent?

<table>
<thead>
<tr>
<th>YES</th>
<th>1.</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO</td>
<td>2.</td>
</tr>
</tbody>
</table>
Q 38. Is ethics training conducted for the staff of your organisation?

YES 1.

NO 2.

Q 39. Does your company have an ethics ombudsman or its equivalent?

YES 1.

NO 2.

Q 40. Does your company conduct an ethical audit of its operations?

YES 1.

NO 2.

SECTION E: THE CODE and THE COMMUNITY:
Q 41. Are your customers informed of the existence of the Code?

YES 1. 
NO 2. 
DON'T KNOW 3. 

If YES, how does this happen?

(Please tick the correct one)

Formal Company Advice 1. 
Informally 2. 
Other (please detail below) 3. 

Q 41. (cont.) Other:
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Q 42. Are your suppliers informed of the existence of the Code?

YES 1. 
NO 2. 
DON'T KNOW 3. 

If YES, how does this happen?

(Please tick the correct one)

Formal Company Advice 1. 
Informally 2. 
Other (please detail below) 3.
Q 43. How does your company see the Code of Ethics assisting its bottom line? (i.e. Profit)

Q 44. Has the Code ever assisted your company with resolving ethical dilemmas in the marketplace? (Please elaborate if possible)

If YES, in what areas?

(Please tick all appropriate ones)
Q 45. Would you please rate your impression of the effectiveness of your Company’s Code of Ethics.

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(Please circle one only)

Please ‘go’ to Question 47 on page 21

Q 46. Do you believe that your company will be introducing a Code of Ethics/Practice/Conduct within the next 2 years?

YES 1.  
NO 2.  
DON’T KNOW 3.  

SECTION F: FINAL SECTION:

Q 47. Would you and your organisation allow me the opportunity to discuss your answers further if I thought that it would be of benefit to my research?

YES 1.  
NO 2.  

Q 48. If your answer was YES to Question 47, to whom should I address my inquiries?
Name:................................................................................................................................

Title:................................................................................................................................

Company Name:...........................................................................................................

Contact Telephone Number: (........)........................................

Thank you for your invaluable assistance !
It is greatly appreciated!

Also Thank you for the COPY of Your Code

Please tick if you would like a copy of my findings and recommendations.

......... Yes, I would like a copy.

......... No, I would not like a copy.
Appendix G: An Example of a Stage 2 Survey Document

Code of Ethics Survey:

Top 500 Companies Operating in the Private Sector in Australia

(Part 2: Best Practice)

1995/6

(STRICTLY CONFIDENTIAL)

Conducted by

Greg Wood
Ph.D Candidate
Senior Lecturer in Management and Marketing, Deakin University, Warrnambool, Victoria.

April, 1996
Code of Ethics Survey:
Top 500 Companies Operating in the Private
Sector in Australia
1995/6
Part 2

This survey is being conducted with 6 companies of the Top 500 Companies operating within the Private Sector whom the researcher considers to be attempting best practice in Australia in this area.

My desire is to ask you for more in-depth information that will give an insight into current Australian practices and in so doing hopefully reveal best practice in this area in Australia.

In the survey the questions are designed to be answered in more detail than your responses to the first document sent out by me. Most of the questions are open ended which allows you to provide a response upon which you can elaborate. If there is insufficient space for your answer please continue your response on the back of the last page.

Each survey is specific to your organisation and I have based the questions upon your original responses.

If you have any questions related to the completion of the questionnaire please contact Greg Wood: Phone: (055) 633 538 or Fax: (055) 633 320.

Once again thank you for your time in answering the questionnaire. It will be greatly appreciated.

RETURN DATE: FRIDAY, 26TH APRIL, 1996
Q 1. Your Code was established in 1992? Why was this step taken?

NB: Your answer in the original survey adequately covered this question. Hence, there is no need to answer it.

Q 2. Your Code was developed by your own company. Why did you do it this way?

Q 3. In the establishment of your company Code you primarily used CEO and Senior Managers. Why were they seen as being the people to use?

(NB: Q4 is not to be answered please go to Q5)

Q 4. When your company adopted the other company's Code you ------: please explain how you changed it:
Q 5. The Code is displayed in your organisation for people outside of the organisation through the use of annual reports, posters in foyers of all facilities and plants and in various other publications. What benefits do you see from doing this?

Q 6. You communicated the code to your organisation's workers by using personal presentations, video presentations and brochures. Why do you use these methods?

Q 7. Your company inducts new staff in respect to the Code by explaining it to them.

a. Why do you use this method (s)?

b. How effective is it (are they)?

c. What resources do you use?
Q 8. You do have consequences for a breach of the Code?

a. How do you assess a breach?

b. What procedures do you have in place to discuss a breach with your staff?

c. How do you protect the integrity of all parties?

d. How do you monitor that the breach has stopped?
Q 9. An employee’s ethical performance is a criterion for employee appraisal and you determine it by a Review by Superiors and Against Formal Company Standards.

a. Why do you use this method?
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Q 10. You have formal guidelines for the support of whistleblowers.

a. Why do you have these guidelines in place?

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b. Please explain the process that your company uses.

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c. How is the process monitored?

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d. What protection is built in for all parties involved ie the whistleblower and the accused?

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Q 11. Your company examines, discusses and revises the Code every two years.

a. What advantages do you see in the time period selected?
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Q 12. Your company use its Code of Ethics to guide its Strategic Planning.

a. How does the process work?

b. How do you monitor if the process has worked during the planning stage?

c. How do you monitor if the process is working after the planning stage?
Q 13. Your company does have a standing ethics committee or its equivalent.

a. Why do you have one?

b. How often does it meet?

c. How does it work?

d. How does it determine the issues that it discusses?

e. How are the issues that it discusses and agrees upon translated into practical changes in the organisation?
Q 14. Your company does have an ethics training committee or its equivalent.

a. Why do you have one?
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Q 15. Ethics training is conducted for the staff of your organisation.

a. Why do you do this?
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b. What types of training occurs?
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C. By what process do you decide on the topics of training?
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d. What types of topics do you consider?
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E. How is the training conducted? ie workshops, discussions, book modules.
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f. Who conducts the training?

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g. Why are these individuals chosen to conduct this training?

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h. What input do employees have to the ethics training curriculum?

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i. How is the performance of the participants assessed?

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Q 16. Your company has an ethics ombudsman or its equivalent.

a. What is the role of the ombudsperson?
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b. What powers does the person have?
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c. How is the person chosen?
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d. What personal characteristics does your company look for in the individual selected?
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Q 17. Your company does conduct an ethical audit of its operations?

a. Why does it conduct an ethical audit?

b. How does it conduct an ethical audit?

c. How does it evaluate the findings?

d. How does it remedy shortfalls?

e. Whose responsibility is it to monitor that the remedies have been put in place?
Q 18. Your customers are informed of the existence of the Code.

a. Why do you do this?
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b. How do you do this?
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c. What responses in general do you get from them when you make the code available?
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d. What mechanisms do you put in place to ensure that practice meets philosophy with your customers?
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Q 19. Your suppliers are informed of the existence of the Code?

a. Why do you do this?
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b. How do you do this?
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c. What responses in general do you get from them when you make the code available?
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d. What mechanisms do you put in place to ensure that practice meets philosophy with your suppliers?
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Q 20. Your company sees the Code of Ethics assisting its bottom line in terms of providing a focus for employee efforts; explaining the rationale for actions; assisting in the development of the corporate culture which translates into more cohesive work practices.

a. Why does your company believe this to be the case?
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b. What evidence do you have to support your beliefs?
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C. Does your company consciously assess this outcome and if so how do they monitor it?
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Q 21. The Code has assisted your company with resolving ethical dilemmas in the market place in the areas of Competitors, Customers, Environment, Product Quality.

a. What mechanisms are in place to reveal this?
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b. How do you deal with these ethical dilemmas?
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c. Are these dilemmas and their resolution communicated to all employees?
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d. Do you use the real life situations gained from these experiences in your training regime?
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.............................................................................................................................................

THANK YOU FOR YOUR INVALUABLE ASSISTANCE!

IT IS GREATLY APPRECIATED!

*N.B. All figures are in percentages*

<table>
<thead>
<tr>
<th>Research Study:</th>
<th>M</th>
<th>L&amp;S</th>
<th>Wood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country:</td>
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<td>CAN</td>
<td>AUS</td>
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**Conduct on Behalf of the Firm**

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<tbody>
<tr>
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<td>86.6</td>
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<td>24.1</td>
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<tr>
<td>2. Relations with customers/suppliers</td>
<td>86.1</td>
<td>77.4</td>
<td>86.7</td>
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<td>3. Relations with employees-health, safety</td>
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<td>53</td>
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<td>4. Relations with competitors</td>
<td>58</td>
<td>29.3</td>
<td>33.7</td>
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<td>5. Relations with foreign gov'ts</td>
<td>73.3</td>
<td>22.7</td>
<td>10.8</td>
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<td>6. Relations with investors</td>
<td>41.1</td>
<td>32</td>
<td>30.1</td>
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<td>7. Civic and Community affairs</td>
<td>24.8</td>
<td>33.3</td>
<td>45.8</td>
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<td>8. Relations with consumers</td>
<td>23.3</td>
<td>33.3</td>
<td>9.6</td>
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<tr>
<td>9. Environmental affairs</td>
<td>12.9</td>
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<td>37.3</td>
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<tr>
<td>10. Product safety</td>
<td>9</td>
<td>12</td>
<td>14.5</td>
</tr>
<tr>
<td>11. Product quality</td>
<td>21.3</td>
<td>24</td>
<td>34.9</td>
</tr>
<tr>
<td>12. Payments or political contributions to gov'ts or gov't officials or employees</td>
<td>84.7</td>
<td>62.7</td>
<td>41</td>
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<td>13. Acceptance of bribes, kickbacks, gifts/entertainment</td>
<td>N/A</td>
<td>82.7</td>
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<td>14. Giving of bribes, kickbacks, gifts/entertainment</td>
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**Conduct Against the Firm**

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<td>72.3</td>
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<td>16. Divulging trade secrets/proprietary information</td>
<td>45.1</td>
<td>81.3</td>
<td>67.5</td>
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<td>17. Insider trading information</td>
<td>43.1</td>
<td>72</td>
<td>56.6</td>
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<td>18. Personal character matters</td>
<td>6.4</td>
<td>50.7</td>
<td>20.5</td>
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<td>19. Other conduct against the firm</td>
<td>10.4</td>
<td>52</td>
<td>30.1</td>
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<td>20. Integrity of books and records</td>
<td>75.3</td>
<td>82.7</td>
<td>57.8</td>
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<td>21. Legal responsibility</td>
<td>90.6</td>
<td>32</td>
<td>79.5</td>
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<td>22. Ethical responsibility</td>
<td>88.1</td>
<td>70.7</td>
<td>62.7</td>
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**Laws cited (in references to)**

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<td>23. Competition Act/Anti-trust/TPA*</td>
<td>33.2</td>
<td>44</td>
<td>32.5</td>
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<td>24. Securities</td>
<td>14.4</td>
<td>24</td>
<td>15.7</td>
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<tr>
<td>25. Environment</td>
<td>0.5</td>
<td>9.3</td>
<td>13.3</td>
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<td>26. Food and Drug</td>
<td>0.5</td>
<td>0</td>
<td>1.2</td>
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<tr>
<td>27. Product safety &amp; quality</td>
<td>1</td>
<td>0</td>
<td>6</td>
</tr>
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</table>
28. Worker health/safety 4.5 9.3 15.7
Research Study:  M L&S Wood
Country:  USA CAN AUS

29. Bribes or payments to gov'ts or officials  18.8 14.7 14.5
30. False advertising  8.4 2.7 2.4
31. Other laws  8 12 43.4

* Australian equivalent: TPA = Trade Practices Act

Governmental Agencies/Commissions referred to

32. Competition Tribunal / TPA  N/A 1.3 0
33. Other agencies  N/A 0 7.2

Types of Compliance/Enforcement procedures

Internal - Oversight

34. Supervisor surveillance  41.1 45.3 21.7
35. Internal watchdog committee  18.3 9.3 8.4
36. Internal audits  22.9 34.7 12
37. Read and understand affidavit  6 45.3 20.5
38. Routine financial budgetary review  2.5 1.3 1.2
39. Legal department review  36.1 9.3 7.2
40. Other oversight procedures  25.8 18.7 9.6

Internal - Personal Integrity
(For questions re policy or reporting misconduct of self or others to:)

41. Supervisor  34.1 69.3 49.4
42. Internal watchdog committee  12.4 0 6
43. Corporation's legal counsel  60 44 32.5
44. Other (in firm)  53 46.7 25.3
45. Compliance affidavits  44.6 34.7 12
46. Employee integrity  49.5 44 43.4
47. Senior management role models  4.5 6.7 8.4

External

48. Independent auditors  17.3 13.3 1.2
49. Law enforcement  1.0 1.3 0
50. Other external  0.5 1.3 3.6
51. Codes mentioning Enforcement or  79.7 70.7 51.8
Compliance Procedures
Research Study: M L&S Wood
Country: USA CAN AUS

**Penalties for Illegal Behaviour**

**Internal**

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<table>
<thead>
<tr>
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<tr>
<td>52. Reprimand</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>53. Fine</td>
<td>0</td>
<td>2.7</td>
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<tr>
<td>54. Demotion</td>
<td>7</td>
<td>5.3</td>
</tr>
<tr>
<td>55. Dismissal/Firing</td>
<td>37.7</td>
<td>46.7</td>
</tr>
<tr>
<td>56. Other internal penalty</td>
<td>25.8</td>
<td>26.7</td>
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**External**

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<table>
<thead>
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<td>57. Legal prosecution</td>
<td>26.2</td>
<td>14.7</td>
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<td>58. Other external penalty</td>
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**General Information**

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<table>
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<tbody>
<tr>
<td>59. Need to maintain corporation's good reputation</td>
<td>46.1</td>
<td>50.7</td>
</tr>
<tr>
<td>60. Letter/Introductory remarks from the President/CEO/Chairperson of the Board</td>
<td>N/A</td>
<td>42.7</td>
</tr>
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</table>
Appendices

Appendix I: Content Analysis of Codes of Ethics: Moral Development

This assessment of the codes was an attempt to classify the code content according to the five stage model of Reidenbach and Robin (1991) (Ch.4). (Information on the model is given in greater detail in Appendix E.) Having made that analysis the researcher decided to combine it with an examination of the composition of the codes in the light of the definitions proffered by The St James Ethics Centre (1993b) (Ch.1) in which the claim was made that many codes were a hybrid of codes of ethics and codes of conduct. Hence, the researcher tried to determine if the documents were discrete entities (either a code of ethics or a code of conduct) or hybrids.

Reidenbach and Robin (1991) used three indicators to determine a corporation’s stage of moral development - a measure of management attitude and approach, a test of corporate culture, and an analysis of corporate ethical artefacts (eg code documents). In this section we rely solely on an analysis of the third of these - code content - giving a classification that must be treated tentatively. Reidenbach and Robin placed codes in five stages of moral development. This analysis found no cases which fell in the amoral category (by definition, the existence of a code precluded this), or the ethical category (which depends on culture absorbing document values). Only the three intermediate positions in the hierarchy (emerging ethical, legalistic organisation, and responsive organisation) could be used due to the data being drawn solely from code content. It must be emphasised that this contracted scale arises because of the data available - not because there are no firms in the extreme categories.

The analysis of the codes (Table I.1) highlighted the fact that only a few companies (10.84%) had reached stage four of Emerging Ethical based upon the analysis of the content of their codes. The majority of companies are in the Legalistic stage two or between stage two and stage three in a Legalistic/Responsive combination. These findings are not unexpected in that this would be a manifestation of the length of time that the concept of codes has been accepted in general by Australian organisations. As the evolutionary process continues and companies revise, review and reassess their ideals in this area of business practice, they should in all probability develop perspectives that would reveal a development towards higher stages of the model of Moral Development.
Table I.1: Corporate Codes as an Indicator of Corporate Moral Development

<table>
<thead>
<tr>
<th>Indicator of Corporate Moral Development</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging Ethical</td>
<td>9</td>
<td>10.84%</td>
</tr>
<tr>
<td>Legalistic Organisation</td>
<td>34</td>
<td>40.96%</td>
</tr>
<tr>
<td>Legalistic and Responsive Combination</td>
<td>22</td>
<td>26.51%</td>
</tr>
<tr>
<td>Responsive Organisation</td>
<td>18</td>
<td>21.69%</td>
</tr>
<tr>
<td>Total (n=83)</td>
<td>83</td>
<td>100%</td>
</tr>
</tbody>
</table>

When analysing the codes, the objective was not only to check to see the stage of Moral Development, as reflected by the content of the codes, but to also consider whether the documents provided were either discrete codes of ethics or were combinations of codes of ethics and codes of conduct/practice. The researcher used as the basis for decision those points listed in the definition of codes of ethics (Chapter 1). A code was deemed to be a code of ethics if it:

1. comprised general rather than specific principles
2. contained a few principles
3. was expressed in terms of ‘ought’ or ‘should’
4. was directed to all stakeholders: not just employees
5. provided general guidance on issues that a code of conduct may not specifically cover

Point 2 was a particularly arbitrary judgement by the very nature of the decision alternative to be made.

The rationale of the researcher had been to establish the number of discrete codes of ethics and then to examine all of the other documents to see if they were exclusively codes of conduct or to see if they had the hybrid quality as suggested by The St James Ethics Centre (1993b) (Ch. 1).

The definition established above was used to outline the characteristics that constituted a code of ethics. The researcher needed to establish criteria to delineate between codes of conduct and hybrid documents. The decision was made that for a document to be classified as a hybrid it must be a combination of both a code of ethics and a code of conduct. The difficult parameter was in trying to determine the weightings that would lead either to one categorisation or the other. The researcher decided that the major difference was between the attention given to the nature of the company’s perspective and their concern
with non-prescriptive ethical considerations. Mere mention of wanting to be ethical was not perceived as being sufficient to warrant hybrid status. Hybrid status was only conferred if the organisation had made some attempt to define the concept of being ethical and to establish some guidelines for such behaviour in their code. Table I.2 shows the findings of this analysis.

Table I.2: The Content of Corporate Codes: Discrete Entities or Hybrid Documents?

<table>
<thead>
<tr>
<th>Discrete Entities or Hybrid Documents?</th>
<th>Number</th>
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<tr>
<td>Codes of Ethics</td>
<td>6</td>
<td>7.23%</td>
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<tr>
<td>Codes of Conduct</td>
<td>34</td>
<td>40.96%</td>
</tr>
<tr>
<td>Hybrids (ethics/conduct)</td>
<td>43</td>
<td>51.81%</td>
</tr>
<tr>
<td>Total (n=83)</td>
<td>83</td>
<td>100%</td>
</tr>
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</table>

This analysis does support the contention of The St James Ethics Centre (1993b) that codes are more likely to be hybrids (51.81%) rather than discrete entities. Another point of interest is that only a few (7.23%) of the eighty-three codes examined were ‘true’ codes of ethics. The situation in Australia is that companies tend to favour the American model of codes of ethics, as described by Vinten (1990) (Ch.1). These documents are more regulatory and aspirational in tone than educational about the values of being ethical.