CORPORATE AUSTRALIA'S COMMITMENT TO CODES OF ETHICS

Greg Wood*
Bowater School of Management and Marketing
Faculty of Business and Law
Deakin University
Warrnambool
Victoria
Australia

Phone: 011-61-3-5563-3538
Fax: 011-61-3-5563-3320
Email: gwood@deakin.edu.au

Michael Callaghan
Bowater School of Management and Marketing
Faculty of Business and Law
Deakin University
Warrnambool
Victoria
Australia

Phone: 011-61-3-5563-3522
Fax: 011-61-3-5563-3320
Email: mbc@deakin.edu.au

Nicholas McClaren
Bowater School of Management and Marketing
Faculty of Business and Law
Deakin University
Waurn Ponds, 3217
Victoria
Australia

Phone: 011-61-3-5227-1277
Fax: 011-61-3-5227-2151
Email: nicmac@deakin.edu.au

* Contact G Wood for further details

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ABSTRACT

The aim of this study was to examine the extent to which Australia's top 500 companies operating in the private sector appear to be committed to codes of ethics. This research has provided evidence to show that codes of ethics are well developed in many of Australia's largest corporations. However, there does appear to be a general lack of special internal processes to reinforce the ethos of the code in such areas as staff training, ethics committees, whistleblowing procedures, ombudsmen 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.

INTRODUCTION

Since the early 1980s, a number of studies (in excess of 10) have been made on codes of ethics in the United States of America and Europe. In Australia there have been only two published studies of Australian codes of business ethics. The first was the Kaye project of 1989 and 1990 centred upon the 50 largest companies in Australia, listed in Business Review Weekly. 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). The principal difference between this current study and that of Farrell and Cobbin was their inclusion of a large number of public sector organisations in the survey. Their respondent group contained organisations of which "30% were public sector (government) enterprises." (Farrell and Cobbin 1994b:9). In contrast, the study reported in this paper 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 (4.9%).

The aim of this study was to examine the extent to which Australia's top 500 companies operating in the private sector appear to be committed to codes of ethics? The concept of 'corporate commitment' to codes is a central one to this research. 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. Corporate commitment can be signified at a threshold level by having a code, but is having a code enough? Is it important or marginal? Corporate commitment was looked at 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)

To focus empirical investigation on commitments to codes of ethics five areas of questioning were asked. The intent of these questions was 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?

METHODOLOGY AND RESPONSE RATES

To evaluate the use of codes of ethics a three stage research procedure was used and conducted across 1995 and 1996. First a questionnaire was sent to the public relations managers of the top 500 Australian companies (based on revenue) operating in the private sector: firms which, for several reasons such as size of turnover, employee numbers, business profile and the like, are more probable to have developed a formal ethics code. Companies were asked to answer up to 46 questions and to supply a copy of their code of ethics.

A response rate in Stage 1 of 68% (340 companies) was achieved with this survey, with 53% (265 companies) 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 this paper.

THE INCIDENCE OF CODES

Question 1 is focussed on the frequency of code usage amongst large private sector firms. The initial evidence indicates extensive usage. A large minority of survey respondents (45.7% or 121 of 265) possessed codes. A further 58 (21.9% of the survey population) claimed they were looking at having a code in the near future.

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 European companies have codes.

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 number of Australian codes were either company specific (42.2%) or were modified and tailored to company circumstances from an industry based code (12.4%). A Don’t Know response was received from 27.3% of companies.

Where such development or customisation occurs within the company it is important to identify who was involved in this process. The survey data show that the development of ethical codes in Australian firms tends to be the prerogative of senior managers (87.9%). Lower level managers, employees and stakeholders are rarely consulted. This use of senior managers only 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.

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. Most firms with codes communicate them to employees (95%), use them in induction (92.6%), and associate them with disciplinary measures (83.4%). More than two thirds also use them in appraisal (69.4%), but less than half use them in strategic planning (45.5%).

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 (Stoner 1989, Gellerman 1989, Sims 1991, Laczniak and Murphy 1991, Fraedrich 1992). Without support for employee training and or the protection of whistleblowers then expectations of ethical behaviour may be unfounded (Murphy 1988, McDonald and Zepp 1990, Harrington 1991, Sims 1991, Maclagan 1992, Dean 1992). In general, it seems that the introductory measures for codes of ethics appear satisfactory but follow up training and implementation appear to fall down.

COMMUNICATING CODES

Question 4 asked whether companies inform stakeholders of both the existence of a code and also of its content. Is the code a document that is shared with stakeholders outside of the company? (Benson 1989, Fraedrich 1992). There was an interest in discovering whether companies perceive that having an ethical commitment has assisted profitability. The link with stakeholders is that, it is the market place that impacts on profitability. It has been noted already 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, however, 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.

PERCEIVED BENEFITS

When asked whether a code of ethics has any perceived benefit there was a range of responses. Regarding being profitable, 58.7% of firms said that having a code was profitable for them. Their 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. The effectiveness of codes was rated at positive or better by 74.4% of respondents. 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.

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 amongst Australia's largest corporations. 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 marketplace 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, ombudsmen 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 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? (Note: these ideas may not be mutually exclusive) 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?

Evidence for this 'sceptical' viewpoint is the secrecy surrounding codes of ethics. Many firms who claimed to have a code did not supply one (43%). Responses to the request for a copy of a code of ethics were sometimes surprisingly secretive. We were asked to destroy one code of ethics after reading it and invited to read another under supervision. Such responses were unexpected. In fact, these situations were contrary to the openness recommended in the literature (Benson 1989, Fraedrich 1992). 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 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.

From the responses reported in this survey it is difficult to separate altruism for its own sake as compared to appearing altruistic in the marketplace 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 in Australia are showing a heightened interest in business ethics. Very real progress has been made since the late 1980s in Australia, in respect to the recognition of the place of ethics in Australian business. Therefore, one can say that many companies appear to have perceived a real need for ethical behaviour and are trying to use their code as a blueprint or guide for company activity. A desire and a commitment to exhibit ethical behaviour by companies operating in the Australian private sector is now in evidence.