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Managerial Values and Corporate Codes of Ethics

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An analysis of 119 corporation conduct codes suggests that top executives of American corporations only weakly shared the concern for social responsibility so often voiced by business leaders in the mid-1970s, when most of the codes were written. The documents give more attention to unethical conduct likely to decrease a firm's profits than to similar conduct that might increase profits. Familiarity with changing societal values is evident, but the executives that authored the codes tended to consider themselves, not the society or even a part of it, to be the conscience of the corporation. The codes have neither relieved organizational pressures to be unethical nor convinced opinion leaders that corporations have become more socially responsible in recent years.

In 1975, the scandal in the White House was followed by one in the corporate world: about five hundred U. S. public corporations were implicated in a web of questionable and illegal activities that stretched around the world. Public confidence in business fell to a point where one business executive publicly expressed concern that corporate officials were beginning to be perceived as "little more than manicured hoodlums."¹ Calls for greater governmental regulation of business grew and began to receive increased support. Some business leaders warned that unless corporate executives took positive steps to "put [their] own house in order," the public might "sour on business as a whole" and precipitate a situation which could "threaten the survival of the free enterprise system" itself.²

Many argued that elevating ethics to a more prominent place in the business world was a necessary first step toward internal reform. In a report released in the wake of the questionable payments scandals, the ad hoc Commission on Auditors' Responsibilities (Cohen Commission) reflected the thinking of many in the business community when it stated that corporate executives would have to begin to look outward as well as inward—to recognize the ethical standards, traditions, and concerns of

society as well as company profits—before any real progress could be made in addressing the “demands of society for corporate accountability” and in reducing the “substantial gap . . . between some corporate behavior and society’s view of appropriate corporate conduct.”³ William Simon, then Treasury secretary, couched the matter in more fundamental terms, arguing for the need to maintain cultural and ethical ties between a society and its constituent institutions:

There are overwhelming moral grounds for a strong business ethic. History teaches us that no free society or free economy can long survive *without* an ethical base. It is only through a shared moral foundation—a set of binding ground rules for fair conduct—that free associations, be they social, diplomatic, or commercial, can flourish and endure. Far from being a luxury, a sound business ethic is essential to the preservation of free enterprise. The real question facing the American business community today is not whether it can “afford” strong ethical standards, but how much longer it can go on without them.⁴

In response to such suggestions and warnings—as well as to the prompting of the Securities and Exchange Commission—many U. S. public corporations began to draw up or revise their internal codes of ethics.⁵ The Business Roundtable and the Conference Board supported the budding ethical code movement by requesting that their affiliated corporations submit any relevant materials they had developed in the area of business ethics.⁶ The objective was to assemble documents that could be consulted by corporations wishing to prepare or revise their codes.

By November of 1976, about 200 documents had been deposited in the collection located in the Conference Board’s John H. Watson Library in New York, leading one board official to anticipate a growing collection made up of “hundreds more” documents on corporate ethics.⁷ However, this was not to be the case. In December, 1977, Congress passed the Foreign Corrupt Practices Act. Interest in the codes declined precipitously, and by the summer of 1979 the collection consisted of only 249 documents. The ethical code “movement” had passed from the scene almost as quickly as it had come into being.

Nevertheless, the documents contained in the Watson collection allow a rare glimpse at the ethical thinking of many of America’s top corporate officials. We surveyed the Watson collection with three specific goals in mind. The first was to summarize the contents of the documents so that those interested could gain a better idea of what corporation executives sought to achieve. A second and more general objective was to highlight what seem to be the principal attitudes and assumptions that formed the intellectual backdrop of the codes—to determine what corporate executives actually meant when they told their managers and other employees to behave ethically. A third objective was to determine the extent to which the documents in the collection reflect the concern for corporate social responsibility so often voiced by business leaders at the time the codes were written.

Before undertaking such an analysis, however, we found it necessary to exclude many of the documents contained in the Watson collection from our study. In fact, over half of the 249 documents in the collection are not relevant to persons seeking formal statements of the ethical standards of American corporations. Twenty-four represented materials submitted by foreign corporations, and another 28, labeled "confidential," are not available for inspection. An additional 50 are excerpts from annual reports, speeches by executive officers, resolutions from boards of directors' meetings, or other materials clearly not intended as a formal statement of a company's ethical policies. Finally, we judged 28 of the remaining 147 documents to be inappropriate to an analysis of corporate ethics because they do not address themselves to activities which reach beyond the firm itself. Rather than showing concern for the company's linkages with the rest of the business community or the larger society, they are concerned solely with matters pertaining to the internal operation of the firm, primarily conflicts of interest.

Altogether, then, only 119 (48 percent) of the 249 documents in the Watson collection were included in our survey of corporate guidelines on business ethics. It seems reasonable to assume, however, that these 119 codes are fairly representative of the ethical thinking of America's top business executives during the years when discussion of internal codes of ethics reached its highest intensity. Over 60 percent of the codes were prepared by firms listed in the *Fortune* 500, including 34 of the top 100 and 5 of the top 10 industrial firms. Almost 20 percent of the codes were issued by firms listed in *Fortune's* top nonindustrial groupings, including 4 of the top 10 banks, 4 of the top 10 utilities, 3 of the top 10 retailers, and 2 of the top 10 transportation firms. Moreover, 43 percent of the codes were either drafted or revised in 1976, the year following the first nationwide publicity about corporate bribery. Almost two-thirds were written or revised between 1975 and 1977, and of the 19 (16 percent) codes on which no date appears, the contents suggest that most of these were also written or revised during this same period.⁸

Policy Areas

Any corporation executive developing an internal code of ethics must first decide what types of activities ought to be addressed in the published document. Three different tabulations were made on the areas covered in the codes: the number of codes in which a policy is mentioned, the number of codes in which a policy is discussed in detail, and the number of codes in which a policy area is emphasized. Detail of discussion is a measure of the amount of attention given to a policy area, while emphasis measures the relative importance of policy areas within a given code. A "detailed" discussion of a policy area goes beyond suggesting the sorts of activities covered by a policy and attempts to elaborate a comprehensive list of actions

Table 1. Policy Areas^a

Policy Area	Discussed		Discussed In Detail		Emphasized	
	%	N	%	N	%	N
Conduct on Behalf of the Firm						
Relations with U.S. governments ^b	76.7	(89)	5.2	(6)	6.0	(7)
Relations with customers/suppliers	75.0	(87)	13.8	(16)	16.4	(19)
Employee relations	52.6	(61)	10.4	(12)	5.2	(6)
Relations with competitors	50.0	(58)	12.1	(14)	12.1	(14)
Relations with foreign governments	42.2	(49)	2.6	(3)	6.0	(7)
Relations with investing public	41.4	(48)	5.2	(6)	7.8	(9)
Civic and community affairs	34.5	(40)	.9	(1)	1.7	(2)
Third-party commercial transactions ^c	26.7	(31)	3.5	(4)	3.5	(4)
Environmental affairs	19.8	(23)	.9	(1)	.9	(1)
Host-country commercial relations	12.1	(14)	4.3	(5)	6.0	(7)
Other	2.6	(3)	—		—	
Conduct against the Firm						
Conflict of interest	69.0	(80)	36.2	(42)	31.0	(36)
Other white-collar crimes ^d	16.4	(19)	1.7	(2)	.9	(1)
Personal character matters	9.5	(11)	1.7	(2)	.9	(1)
Other	1.7	(2)	.9	(1)	—	
Integrity of Books and Records ^e						
	49.1	(57)	6.9	(8)	13.8	(16)

a. Percentages are based on the 116 codes containing discussions of specific policy areas. Percentages do not total 100 percent because most codes discuss more than one policy area.

b. Includes participation in public life (such as office holding).

c. Includes transactions with agents, consultants, and distributors.

d. Acts other than those relating to conflict of interest (such as embezzlement).

e. Includes discussions of off-book accounts, false or misleading records and supporting documents, and candor with internal and independent auditors.

included in the policy. Three aspects of presentation determine whether a policy area is "emphasized" in a code: the amount of space given to a policy area relative to other policy areas; forcefulness of presentation (again, relative to other areas); and explicit statements to the effect that one policy area should be considered more important than others.

As reflected in Table 1, we also catalogued the various policy areas into more generic groupings according to whether they address conduct on behalf of the firm, conduct directed against the firm, or conduct related to the integrity of a firm's books and records. These categories highlight two important aspects of the recent concern with business ethics.

First, as already noted, the questionable payments scandal (including allegations of both commercial and political corruption), like the more general concern for corporate social responsibility that both preceded and accompanied it, raised the issue of the corporation's obligations to the society which it is supposed to serve and with which it must interact.

Professor George Cabot Lodge of the Harvard Business School has suggested that a "new ideology" has appeared in the land, one focusing on the responsibility of corporation executives to the society in which the corporation is embedded.⁹ This ideology implies that executives must be integrators and synthesizers who are "responsible for the whole enterprise in its internal and external relationships."¹⁰ It is important to determine the degree to which codes of conduct prepared by these executives show concern for ethics in decisions affecting a corporation's "publics" (such as competitors, consumers, governments, and others) as well in activities that directly affect only the corporation itself (such as conflicts of interest and embezzlement).

A second reason for creating more generic categories of policy areas is related to the fact that some of the codes were prompted, at least in part, by the Security and Exchange Commission's concern for the high correlation between a corporation's questionable or illegal activities and the falsification of its books and records. A review of SEC statements about improper payments, for instance, concluded, "Foremost in the minds of the regulators was the integrity and accuracy of the corporate accounting system."¹¹ This concern for false books and records, of course, later became manifest in the Foreign Corrupt Practices Act. Yet false books and records can be used either to conceal unethical conduct on behalf of the firm (such as illegal political contributions) or illegal conduct against the firm (such as embezzlement). Indeed, one of the most striking characteristics of the questionable and illegal payments was the similarity between the techniques used to conceal them and those used to conceal embezzlements.¹² Consequently, we have included a separate category pertaining to accounting and auditing, even though doing so means that there is overlap with the other two categories in Table 1.

Two sets of findings concerning policy areas mentioned in the codes deserve special attention. First, there appears to be little in the way of consensus among corporation officials as to the proper subject matter of a code of ethics. As indicated in Table 1, while over fifteen areas of business activity are discussed in the codes, only three are covered in at least two-thirds of them—relations with the U. S. government, relations with customers and suppliers, and conflicts of interest. About half of the policy areas are mentioned in less than one-third of the codes.

There is some evidence to suggest that this diversity of focal concern reflects an attempt by corporate officials to tailor the codes to firms' individual concerns in a highly complex national and international economy. For instance, when we compared larger against smaller industrial firms and industrial against nonindustrial firms, there was a slight tendency for one category of corporation to give more attention to a policy area than was true for other categories of corporations (for example, larger industrial firms were more attentive to relations with foreign governments and host

countries than were smaller industrial firms).¹³ This effect, however, was minimal and limited to a small range of policy areas. Moreover, this factor cannot account for the fact that many areas of business conduct that affect all public corporations are covered in some codes but not in others: policies covering relations with competitors and employees are mentioned in only about half the codes (both in the aggregate and across-business sectors); policies dealing with a firm's relations with the investing public and with the integrity of its books and records appear in under one-half the codes.

Further, it should be recalled that most of the codes were issued in the years immediately following the questionable payments scandal. It seems reasonable to assume that the frequent inclusion of policies concerning a firm's relations with U. S. governments (frequently illegal political contributions) and relations with customers and suppliers (frequently kick-backs and "facilitating arrangements") was to some extent conditioned by external forces. Indeed, twenty-nine of the codes explicitly state (and several more imply) that the code was either issued or revised in response to the concern for corporate ethics growing from the Watergate and SEC investigations. (Only two of the thirty-three nonindustrial codes contain such statements, probably because nonindustrial firms were less implicated in the illegal and questionable payments scandal.) It seems reasonable to conclude that corporate executives frequently hold very different views of the ethical importance of all but a few policy areas.

A second finding of importance emerges from examination of the frequency with which specific policy areas are discussed in detail or emphasized in the codes. As shown in Table 1, the policies regarding conflict of interest receive significantly more attention than other policy areas: they are discussed in detail three times as often as any other area and are emphasized about twice as often. Thus, when detail and emphasis are considered, the codes' authors seem more concerned about conflict of interest than with actions that directly affect the public at large.¹⁴ In fact, a few documents seem to be mere conflict-of-interest codes with other matters tacked on as an afterthought.

The disproportionate degree of attention given to conduct against the firm may be explained, at least in part, by the fact that such behavior is of long-standing concern to corporation officials. In contrast, matters pertaining to the public interest have only recently come to be perceived (under the banner of "corporate social responsibility") to be of ethical as well as economic significance to corporation executives. The relative lack of detailed discussion or emphasis given to policy areas such as those related to the questionable payments scandal or to the more general area of corporate social responsibility (including, for instance, commercial relations with host countries and environmental matters) can be partly attributed to their newness as areas of concern in the corporate world. Again, however, this can hardly be said to be true of long-standing and

universal concerns such as employee relations or relations with stockholders and investors. Thus, when detail and emphasis are considered, the codes seem to reflect a more abiding concern for conduct that is directly inimical to a firm's internal operations than for relations in keeping with the new ideology identified by Professor Lodge.

Sociologist Daniel Bell, like Lodge, has observed that corporate concern for public policy, summed up in the phrase "social responsibility," "derives from the growing conception of a communal society and the controls which a polity may have to impose on economic ventures that generate unforeseen consequences far beyond the intentions, or powers of control, of the initiating parties."¹⁵ Where once there was a sense of identity between the self-interest of the corporation and the public interest, Bell notes, now there is an awareness that "corporate performance has made the society uglier, dirtier, trashier, more polluted, and noxious."¹⁶ Accordingly, what were once rather straightforward economic issues (of "maximization," "optimization," "least cost," and other indicators of economic rationality) have become ethical issues. W. Michael Blumenthal has put the matter this way: "People in business have not suddenly become immoral. What has changed are the contexts in which corporate decisions are made, the demands that are being made on business, and the nature of what is considered proper corporate conduct."¹⁷ As more corporation executives become convinced that they and other businesspersons are not an abstract species of "economic man," but rather are men and women engaged in a fully human activity, we expect that internal ethical codes will stress actions taken on behalf of firms at least as much as they stress actions conducted against the firm.

Authority

All but one of the codes are self-consciously grounded in some form of authority—precepts, tenets, or principles that make a code's policies seem ethical, morally necessary, or legitimate. Drawing on authoritative principles gives weight to the standards that comprise a code of ethics. About 87 percent (104) of the codes are backed by authoritative principles that transcend the world of business, and 96 percent (114) draw upon precepts or principles internal to that world. Eighty-four percent (100) draw upon both.

Two broad forms of authority external to the business world are cited in the codes—metaphysical principles and legal-political principles. Although a few codes draw upon Christian or other religious doctrine, the most commonly cited metaphysical principle is simply that virtue is its own reward. This theme is stated in sentences such as "The precepts of honesty and integrity demand that business be conducted in a lawful and ethical manner."

The dominant legal-political principle used to give added weight to the

codes is the social contract—the idea that civilized life demands that private interests be pursued only within the “rules of the game” set forth by the larger society.¹⁸ A social contract or covenant thus gives each citizen a duty to behave responsibly and ethically toward fellow citizens. In the codes, the corporation is often viewed as a citizen, with the result that the obligations of citizenship are said to pertain to this “person” as well as to natural citizens. The social contract theme is therefore frequently expressed in statements such as “Good corporate citizenship demands business conduct that is both lawful and ethical.” All employees are to work in ways that will maximize the firm’s income, but they are directed to do so within the rules of the game that the corporation’s top executives have extracted from the principles of the social contract.

In the Watson codes there is often a delicate interplay between the secular (rules of the game) and the sacred (metaphysical authority). Of the 104 codes backed by external sources of authority, 28 draw on legal-political principles alone, but 76 draw on metaphysical doctrine as well. Of the latter, 43, or just over half, contain explicit statements concerning the relationship between legal-political and metaphysical principles. The dominant view is that good corporate citizenship and metaphysical morality are mutually reinforcing virtues and are the foundation of the ethical standards set by corporate executives. Some codes, it should be noted, suggest that honesty and integrity may require that the firm oppose “bad laws” through proper channels, but only 3 codes suggest such standards might require conduct of questionable legality.

Authority internal to the world of business is more highly differentiated than is external authority, but the theme is the one frequently voiced by business leaders during the period of the questionable payments scandals, namely that the long-run interests of both the free enterprise system and individual corporations are best served by ethical conduct on the part of corporate personnel. This often found expression in the statement, “Good ethics is good business.” Sometimes such a sentence is used to refer to the free enterprise system or the market economy in general, but more often, it refers to the affairs of the individual firm, the implications being that if employees are not ethical the corporation will not thrive.

The pivotal role played by the firm in the codes is reflected in the frequency with which varying sources of internal authority are cited. Almost two-thirds of the codes legitimate their policies by suggesting that they are important, or even essential, to the continued good reputation of the firm. Half say, singly or in combination with other justifications, that the code ought to be followed because it is company policy. Twenty-seven percent of the codes say, consistently, that the firm’s past ethical conduct stands as a precedent that ought to be followed. By way of contrast, fewer than one in five codes attempts to justify company policies on the basis of the principles of free enterprise (for example, the virtues of honest and

open competition), and only one in seven mentions that ethical conduct is important to the survival of capitalism.

Differences in the way authoritative principles are incorporated into the codes further this inward-looking aspect of the Watson documents. Authoritative principles are incorporated: as predicates for specific statements of substantive policy within the main body of the code; in introductory or concluding passages of a code (thereby acting as predicates for the entire code); in special sections set aside for the specification or elaboration of authoritative principles; and as independent or free-floating statements embedded in the body of the text. Utilization of one or another context denotes a qualitative difference in the relationship between authoritative principles and substantive statements of policy. (However, a sizable minority of the codes used more than one of these contexts.) The relationship is clearest when the principles are used as predicates for specific statements of policy, frequently being joined within the same sentence; it is also fairly clear when such principles are contained in the introductory or concluding remarks. Somewhat the same is true when the principles are set aside in a special section of the text, though their predicative quality may be lost on the reader. The relationship between principle and policy is even further lost when statements of authority are free-floating in the text of the code.

Some elaboration may help to clarify the contours of these four types of contexts. Authoritative principles used as predicates for specific policy statements ordinarily combine in a single sentence with the policy statement — "The principles of fair play and honesty demand that particular care be exercised to avoid practices which seek to increase sales by any means other than fair merchandising, design quality, productivity, and competitive pricing." Less often, they appear as a separate sentence consecutive to the policy statement — "The Corporation firmly believes that fair competition is a fundamental virtue of the free enterprise system and is essential to its survival. All employees are expected to comply with and support the laws of all countries which prohibit restraints of trade, unfair practices, or abuse of economic power."

The other three contexts differ not so much in what is said as in the distance that separates the statements of principle and the statements of policy. An authoritative principle used in the introduction to one of the codes ("Our Company has a proud tradition, and compliance with the standards set forth in this booklet is vital to the integrity and well-being of our Company and our employees"), while spatially removed from statements of policy, nevertheless is clearly intended to predicate all the policies outlined in the firm's code. Special sections that enumerate authoritative principles further distance statements of principle from statements of policy, sometimes because of physical distance and sometimes because the relation between principle and policy is not made explicit. In

some special sections ("Standards to Follow and Be Judged By," "What We Believe," "The Company's Fundamental Objectives"), statements of principle are listed in a manner which renders them almost indistinguishable from a simple statement of policy, further diminishing their character as predicates.

This diminished character of authoritative principles is even more pronounced when statements of principle are embedded or buried within the code's text. In fact, it is not unusual for statements of principle presented in this way to be explicitly treated as though they *were* statements of company policy. One code says, in the middle of a discussion of specific policies, "The Company expects all employees to maintain high ethical standards. A sense of ethics will make you more considerate and honest in your dealings with fellow employees, family, friends, and associates, and will satisfy your own sense of honor and right." Here, a variant on the theme that "virtue is its own reward" is transformed into a statement of company policy.

Despite the fact that the codes draw almost equally on external and internal sources of authority, Table 2 indicates that authoritative principles related to the world of business are used more frequently than external sources of authority as predicates for a code's specific policies. For example, an admonition against engaging in illegal political contributions is more likely to be immediately preceded by a statement that such behavior is "bad for our firm's reputation for honest dealings" than by a statement that such behavior is "unlawful," "dishonest," or "unethical." Table 2 also shows that corporate officials are significantly more inclined to use business principles in the introductory and concluding passages of a code. Thus, business principles are more often used as the *raison d'être* for a code than are nonbusiness principles. Although the differences are not great, they suggest a tendency for corporate officials to give greater weight to business principles in general and those related to the firm in particular when seeking to legitimate ethical policy.

The overall conclusion is that executives of top corporations tend to look inward rather than outward when seeking a basis for the authority of their policies. Thus, they have tried to implement the "economic man" model of business transactions. Their goal, understandably enough, is to maximize profits, and to that end they—like the business leaders who called for ethical reforms in response to the payments scandals—ask all businesspersons to follow the rules of the game, lest the moral reputation of capitalists fall so low that the market economy becomes more vulnerable to external intervention. By the same token, corporation personnel are asked to follow the rules because not doing so might be expensive and might also cause disillusioned customers to take their business elsewhere. It also is clear that top executives tend to view themselves as vested with the power to make and enforce ethical rules for corporation personnel, thus supple-

Table 2. Contexts in which Authoritative Principles Are Presented^a

Type of Authority	Mode of Presentation								N
	Predicate in Text		Introduction or Conclusion		Special Section		Other ^b		
	%	N	%	N	%	N	%	N	
External	35.5	(37)	69.2	(72)	24.0	(25)	36.5	(38)	104
Internal	58.8	(67)	80.7	(92)	25.4	(29)	13.2	(15)	114

a. Percentages are based upon the number of codes drawing upon one or another type of authority.

b. Refers to the presentation of authoritative principles in the text of the code itself.

menting the rules of the game that are set by their society's legal-political authority.

Clarification of Policies

Another index of corporate officials' high regard for the authority residing in the firm itself is the instruction given to persons wishing clarification of the types of activities or actions covered by a code. Clarification is partially accomplished by the use of examples, illustrations, and detailed discussions. However, two-thirds (81) of the codes also instruct persons to address questions about the code's provisions to other sources, suggesting that the codes themselves are not meant to be the final word on ethical conduct.

Almost half the codes refer readers who are in doubt about the propriety of an action to other, more detailed discussions contained in the firm's manuals of policies and procedures. Less frequent (30 percent) is a referral to a standing committee (such as one that deals with social policy) or to periodic conferences or meetings called to discuss ethical policies. But by far the preferred approach is to refer persons to someone of higher authority (58 percent) or someone with specialized, authoritative expertise (65 percent) for guidance.

This pattern of referrals reveals an important assumption held by many top corporation officials, namely that decisions concerning a firm's ethical standards are the preserve of those holding authoritative positions within that firm. In our judgment, in fact, 106 of the 119 codes are either paternalistic or authoritarian in tone, telling employees in effect that ethical expertise is correlated positively with salary and status. This assumption is particularly ironic in view of the fact, discussed later, that managers, especially lower-level ones, find "pressure from above" to be a significant factor in the compromising of personal ethics and also in view of the fact that top-level executives were frequently implicated in, if not the initiators of, much of the ethically questionable behavior these codes were intended to correct.¹⁹

Collectively, the statements on clarification of policies confirm the impression gleaned from consideration of the policy areas emphasized in the codes, as well as from analysis of the principles used to give authority to the codes. The tendency is to view each corporation as something of a private government, a locus of collective authority as well as a private economic enterprise. The elite members of this private government enact "laws" (conduct codes) that show some concern for relations with other governments, private and public, but emphasize the need for conformity to those laws protecting the individual establishment. These same elite members tend to find authority for their laws in the need for economic prosperity within the "state," represented by the corporation. Consistently, they tend to validate their hegemony by suggesting that "marginal" citizens—those who are not clear about what the law means—should consult the "attorney general" (legal department) or their superiors, or the policies these persons have written.²⁰ Because every corporation employee except the chair of the board has an immediate supervisor, it is reasonable that each employee should be referred to a supervisor for clarification of the law (ethical policy). However, such a referral system seems to be based on the assumption that "legal" (ethical) authority is vested in the board's chair and that knowledge of what is legal decreases as one moves down the chain of command.

Compliance Procedures

The procedures specified for monitoring, enforcing, sanctioning, or otherwise ensuring compliance with a code's provisions are consistent with the tendency of corporation executives to regard the firm itself as the focal point for legitimating ethical policies and to regard their own positions within the firm as the ultimate authority for deciding what those policies shall be. Three-fourths (ninety) of the codes contain information on compliance procedures, a positive indication of the seriousness with which corporation officials are approaching the question of business ethics.

Table 3 lists the various types of such procedures mentioned in the codes and notes the frequency of inclusion. We catalogued compliance procedures according to three principal enforcement themes that emerged from reading the codes: control through oversight, control based on the personal integrity of corporate personnel, and control effected by outside agents or agencies. The frequency with which these themes are emphasized in the codes is also shown in the table. (Emphasis was determined by using the same three criteria used to determine emphasis of policy areas.)

The stress on company controls rather than on external ones is, of course, in keeping with what seems to be a principal motive for writing and issuing employee conduct codes in the first place—corporate self-regulation to stem the tide of governmental regulation. In other words, the

Table 3. Compliance Procedures^a

Type of Compliance Procedure	Discussed		Emphasized	
	%	N	%	N
Internal—Oversight			72.2	(65)
Supervisor surveillance	53.3	(48)		
Internal audits	35.6	(32)		
Read and understand affidavits ^b	23.3	(21)		
Routine financial-budgetary review	14.4	(13)		
Legal department review	13.3	(12)		
Other oversight procedures	5.5	(5)		
Internal—Personal Integrity			35.6	(32)
Reporting misconduct of self/others ^c	52.2	(47)		
Compliance affidavits	38.9	(35)		
Employee integrity	33.3	(30)		
Senior management role models	4.4	(4)		
External			1.1	(1)
Independent auditors	20.0	(18)		
Government agencies/law enforcement ^d	5.6	(5)		
Reporting of misconduct by outsiders	1.1	(1)		

a. Percentages are based on the 90 codes mentioning compliance procedures. Percentages do not total 100 because some codes give equal emphasis to two or more compliance categories.

b. Affidavits affirming that the individual has read and understood the firm's code.

c. Excludes conflict of interest disclosure forms. These are included under the category, "compliance affidavits."

d. Includes all forms of law enforcement and all types of government regulatory agencies.

purpose of "private law" is to make public law unnecessary.

What is surprising is the extent to which top-down oversight procedures overshadow procedures based on the premise that ethical control is at its best when a company employs individuals possessing impeccable personal integrity. Oversight procedures of one kind or another are mentioned 131 times in the ninety codes, as compared with only 34 mentions of employee integrity or senior management role models. Moreover, well over two-thirds of the ninety codes emphasize oversight procedures, while just over one-third emphasize compliance based on the integrity of personnel. The codes of the largest industrial firms both mention and emphasize employee integrity more frequently than do the other firms. None of the codes for nonindustrial firms mention senior management role models.

This finding stands in sharp contrast to the numerous recitations of recent years concerning the importance of managerial integrity and senior management role models to the ethical character of a firm's business conduct. For example, in a 1977 interview, Frederick Collins, president and chief operating officer of Sperry and Hutchinson, voiced the opinion that codes are invariably pietistic, ambiguous, and rhetorical—honored in

public relations offices more than in executive suites. "The real job is setting the right example by top management; if it performs in an above-board way in everything, others will follow."²¹ IBM's Frank T. Cary thought codes would help in "restoring the good name of business" but added that ethical conduct should start with top management: "If the chief executive winks, some of his employees will wink back."²² L. W. Foy, chairman of Bethlehem Steel Corporation, agreed by saying, "It is a primary responsibility of business management to instruct, motivate, and inspire their employees to conduct themselves with honesty, probity, and fairness. Starting at the top, management has to set an example for all others to follow."²³ If these statements are typical of business leaders, which they probably are, then the codes' stress on oversight and surveillance procedures is in flat contradiction to what such leaders believe.

Again, it should be noted that the codes of the top one hundred industrial corporations put more stress on employee integrity and senior management role models than do the other codes. It is possible that this difference was produced in part by business leaders' speeches and attitudes. These leaders, of course, are mostly heads of top industrial corporations. Further, sheer size and complexity of operations might make it more essential for executives of the largest firms to acknowledge that personnel must be trusted and, thus, to acknowledge the fallacy of the assumption, popular among accountants and auditors, that management fraud can be prevented by stringent surveillance programs.²⁴ Also, at the time the codes were written or revised, managers of large multinational corporations were perceived to be more deeply involved in illegal and questionable payments than were others, and much of the then-current wave of anti-business sentiment was attributed to a lack of personal integrity among the executives of a few top corporations. It seems reasonable to assume, then, that the greater emphasis on personal integrity in the codes of the largest firms is in part a function of the greater need for executives of top companies to publicize management integrity.

It is true, of course, that when corporation executives sit down to write codes they must necessarily assume, at least temporarily, that the integrity of managers and other employees is not sufficient. Still, twenty-nine (24 percent) of the codes make no mention of compliance or sanctioning procedures. Conceivably, the authors of these codes assume that personal integrity is a sufficient guarantee of ethical practices, but no mention of this assumption is made in any of the twenty-nine codes. The authors of the remaining codes seem to have greater confidence in formal supervisory procedures than in the more informal procedures involved in selecting ethical people for employment and then encouraging them to base their business decisions on ethical principles rather than basing them solely on financial and administrative criteria. The fact that only four codes mention the importance of senior management role models further sug-

gests that most of the code writers have greater confidence in their abilities to administer surveillance procedures than in their abilities to generate an environment in which unethical conduct is practically unthinkable. There are at least six plausible reasons why most codes have been written so as to give this impression.

In the first place, it is possible that top managers are too wise to rely on personal integrity alone and too modest to assert boldly that all personnel should follow the example of the president and chair of the board. After all, as noted earlier, some of the illegal and questionable payments disclosed in the midseventies were made with the knowledge of top executives. And, in other cases, the top executives themselves kept off-the-books slush funds and used them to influence persons in a position to help a company's sales or in a position to do financial harm to a company if payments were not made. Accordingly, if corporation executives issued a statement to the effect that personnel should watch them doing right and not doing anything wrong, their published "holier than thou" attitude could very well backfire.

Second, reliance on oversight procedures is consistent with the fact that the corporation executive is a manager rather than an entrepreneur. Just as the preferred system for clarifying policies validates the chain-of-command system of managerial authority, the preferred compliance procedure asks executives to manage ethical conduct from the top, through a chain-of-command, in the way they manage productivity. Thus, the codes assume but do not state that top managers are excellent role models, but then go on to indicate that the corporation will not rely solely on exemplary behavior of top management as a control device. Instead, these managers are to diffuse their ethics downward through a hierarchical supervisory system. Provisions for signed affidavits stating that employees have read and understood or complied with the provisions of an ethical code are clearly consistent with this managerial procedure for ensuring ethical conduct. About half (56) of the 119 codes ask either for an "I understand the code" affidavit or an "I have complied with the code" affidavit, or both. (This figure is also somewhat misleading because many compliance affidavits are concerned solely with conflict-of-interest declarations.)

Third, officials of the Securities and Exchange Commission have long advocated absolute authority of top management in ethical matters, and it is likely that their recommendations are reflected in at least some of the codes. Consider, for example, the Foreign Corrupt Practices Act, which was written with the help of SEC auditors and lawyers. This law has two main sections, one pertaining to bribery of foreign governments, the other to accounting standards. Both sections indirectly call for high ethical principles among top managers, and both directly imply that top managers should use conduct codes to diffuse their morality down through the ranks. One corollary, we believe, has been a conception of the corporation as a private state and a conception of the codes as private law to be ad-

ministered by the corporation's governors. The accounting standards section, especially, places responsibility for questionable and illegal behavior squarely on the shoulders of top management by requiring each corporation to maintain books and records sufficient to provide management with reasonable assurance that transactions are accurately reflected on the records and that assets are accounted for in accordance with management's private law (a system for maintaining adequate books and records) rather than moral example to stem bribes or other unethical conduct by corporation personnel.

Fourth, the codes probably stress oversight procedures more than personal integrity and top management role models because top executives, like everyone else, subscribe to the "get tough" position that is so popular in contemporary discussions of how to deal with the problem of crime. This position on crime control has many forms, but common to all of them is the idea that crime rates can be reduced by diligent detection coupled with swift and certain punishment of offenders, and that, therefore, no attention need be given to modifying the social conditions producing the high rates. Consistently, most senior executives who write codes opt for tactics that will increase the level of surveillance, and, hence, the probability of apprehending wrongdoers, rather than for programs that will change the corporation's environment, thus modifying the causes of inappropriate behavior in ways that will reduce the incidence of that behavior.

Fifth, the traditional deterrence approach, rather than a personal integrity approach, probably is stressed in the codes at least in part because it is easy to administer and, for that reason, protects top executives. Because the deterrence approach stipulates that bad things will happen to bad people, it also specifies that only persons who intentionally or knowingly have violated a statute are subject to punishment. Put negatively, ignorance in the form of "unintentionality" is a defense to a criminal charge. Consider, in that light, the fifty-six codes requiring signed affidavits indicating that personnel have read and understand a firm's policies, complied with a firm's policies, or both. Persons who certify that they understand a code will later be hard pressed to argue that they did not know their misconduct was in violation of the code. And, of course, a stack of signed compliance affidavits protects top executives from being accused of ratifying or knowing about malfeasance among underlings.

Sixth, and more generally, surveillance-oriented corporate conduct codes themselves provide both top managers and corporations with defenses against possible charges that top executives have winked at law violations among their subordinates. Under the Foreign Corrupt Practices Act, for example, an individual who bribes a foreign official can be fined \$10,000 and imprisoned for five years; a corporation can be fined \$1,000,000 for this offense. But a corporation probably would not even be

prosecuted, let alone found guilty, unless there were evidence that top managers either condoned the offering of a bribe by a company employee or provided an atmosphere conducive to offering a bribe. To guard against this eventuality, as well as against prosecutions for violations of other business laws, top managers need only adopt a written code prohibiting foreign bribery, communicate it throughout the organization, obtain compliance affidavits, and establish oversight procedures for monitoring compliance with the code.

All told, the stress on oversight procedures and on self-reporting rather than on employee integrity is consistent with what the Stanford Law School's late Herbert Packer called the "crime control model" of criminal justice.²⁵ This model emphasizes detection, conviction, and punishment. It assumes that bad people are out there and that they will violate the law if not kept under close surveillance. The more efficient the surveillance apparatus, the greater the potential for ferreting out wrongdoers.

When attention is focused on sanctions rather than on detection and surveillance, however, the tendency of the codes to adopt and utilize the deterrence principle of the criminal law all but disappears. Central to the crime control model is the premise that detected violators ought to be sanctioned with punishment—only through the uniform application of known punishments will the "costs" of misconduct be made known to potential offenders. But punishment is not, similarly, the foundation stone of the compliance procedures mentioned in corporation codes of ethics.

We have already noted that 29 of the 119 codes (25 percent) make no mention of compliance procedures or sanctions at all. Of the remaining 90 codes, only 38 (42 percent) contain information on sanctions to be used in the event of noncompliance. Of these, only 7 are specific. That is, 31 codes discuss sanctions in only a general way—for example, by saying that any violation of the code will result in "dismissal or other appropriate action." Criminal statutes, by way of contrast, always state that whoever behaves in a specified way ought to be punished in a specified way. Perhaps even more significant, only 10 of the 119 codes mention who is responsible for deciding on guilt and punishment and the procedures for doing so.

The content of the codes seem to be in direct contradiction to business leaders' calls for specified punishments. For example, Frank T. Cary advocated that every company adopt a code stating "what kind of conduct it will not tolerate, and what penalties will result," and Dean Arjay Miller of Stanford University's Graduate School of Business, formerly a Ford Motor Company executive, said any company drafting a code is obligated to "demonstrate its commitment through firm discipline and punishment of the guilty."²⁶ Fred T. Allen of Pitney Bowes more adamantly called for straightforward imitation of the criminal law:

Some people have suggested that corporate ethics can be maintained through a reward/penalty system. That is, employees should be rewarded for ethical behavior

and punished for infringements. To me, only the latter half of that suggestion makes sense. There is no more reason to reward an employee for not paying or taking a bribe than there is to reward him for getting to work on time. Both are basic obligations. How should the corporation respond to the individual who is guilty of violating its ethical code? From the pinnacle of the corporate pyramid to its base, immediate corporate justice, commensurate with the degree of transgression, is the only choice. By doing so, the corporation is saying as clearly as it can that it will not tolerate corporate-related wrongdoing by anyone.²⁷

Several ways of reconciling our findings on sanctioning with such calls for punishment are logically possible. One is that in a corporation "everybody knows" that violation will have punishment as its consequence, minimizing the need for explicit discussions of sanctions. Although this interpretation probably is correct when it refers to unethical conduct against the corporation, it is questionable when the reference is to questionable or illegal behavior on behalf of the firm. The fact is that many corporation personnel believe that they are expected to sacrifice personal ethics to profit making. One survey found that almost 65 percent of a national sample of 236 managers agreed with the statement, "Managers today feel under pressure to compromise personal standards to achieve company goals." Moreover, top management split equally on the proposition, whereas 65 percent of the middle managers and 85 percent of the lower managers agreed with it.²⁸ A later survey of the middle and top managers of Pitney Bowes found 59 percent agreeing with the same statement: 25 percent of the persons earning over thirty-thousand dollars agreed with it, as compared with 65 percent of the persons earning under thirty-thousand dollars.²⁹ These studies also found managers agreeing overwhelmingly that pressures from above to get results cause managers to compromise their standards. This was borne out by a survey of 1,227 *Harvard Business Review* readers. The surveyers concluded that "relations with superiors are the primary category of ethical conflict. Respondents frequently complained of superior's pressure to support incorrect views, sign false documents, overlook superiors' wrongdoing, and do business with superiors' friends."³⁰ In light of these studies, it does not seem proper to assume that "everyone knows" that unethical behavior will be punished.

A second way of interpreting our findings about sanctions is suggested by the fact, previously discussed, that half the codes say a code ought to be followed simply because it is company policy. A code hardly need state that, consistent with this principle, anyone not following the code will be dismissed or suffer some other sanction. Moreover, misconduct of a criminal nature is punishable by law; corporate prosecution for unethical behavior that is not criminal could easily display the elements of libel and slander. And if punishments for code infractions were explicitly specified and if constitutionally required due process procedures of the criminal law were acknowledged as pertinent to "private law," then the involved corporation might find itself with an expensive judicial system, in some cases as large as the judicial systems of small nations.

Finally, vagueness about punishment and due process procedures places broad discretionary power in the hands of a firm's top executives. In the absence of stipulated penalties and guidelines restricting discretion, punishments can be imposed arbitrarily and almost capriciously, but also can be adjusted—in the interest of justice—to the circumstances of the offense and background of the offender. Within corporations, such informality might function to consolidate power in the offices of top executives, just as would be the case if top executives explicitly stipulated offenses and their punishments. Punishments can be inflicted, or not inflicted, depending on variables other than the mere fact of malfeasance—the value of the offender to the corporation, the offender's status in the community, the possible effects on the firm's reputation.

In sum, the codes' stress on oversight and surveillance procedures seems to be consistent with their neglect of a structure for trials and their failure to emphasize the punishments to be inflicted for specified kinds of illegal and unethical conduct. If surveillance is as close and infallible as some codes say it should be, then there will be no opportunity for misconduct, making a private criminal code unnecessary. The codes adopt a get-tough posture—but on close scrutiny are found to be not very tough at all.

Conclusions

The codes we have examined suggest that top executives of major corporations are now well aware of the recent movement to raise ethical considerations to a more prominent place in corporate decision-making. Although people still go into business to make money, many business practices that traditionally have been analyzed solely in terms of costs and benefits are now being analyzed with their ethical ramifications in mind. However, it still continues to be true that suggestions for deliberately decreasing a firm's profits, whatever the reasoning involved, are not likely to sit well with a majority of stockholders. Also, Wall Street analysts who advise potential investors are, in all but extreme cases, more likely to be concerned with the bottom line than with corporation's degree of social responsibility or with the ethical conduct of its personnel.

It is perhaps for these reasons that as top executives have written codes of employee conduct they have approached the matter of possible profit reduction both gingerly and vaguely. They have, for example, given most attention to areas of illegal or unethical conduct that are likely to decrease a firm's profits—conflict of interest, embezzlement—and least attention to illegal or unethical conduct that might increase profits—pollution, abandoning a locale and its workers for a potentially more profitable one, maintaining unsafe working conditions, and manufacturing and selling unsafe products.

Our analysis also suggests that top executives of major corporations, at least, are quite knowledgeable about what Professor George Cabot Lodge

calls a "new ideology," about what Professor Daniel Bell calls "communal" concerns, about what Dr. Michael Blumenthal calls the changing "contexts" in which business decisions are made, and about what the Commission on Auditors' Responsibilities (Cohen Commission) calls "the demands of society for corporate accountability" and the "substantial gap" existing "between some corporate behavior and society's view of appropriate corporate conduct."³¹ Even before the questionable payments scandal appeared on the scene, Ivan Hill, a retired advertising executive who until recently headed the Ethics Resource Center in Washington, D.C., put the matter this way:

Many of us, priced into action, are not so much dissatisfied with our system of doing things, but insistent upon making it work fairly. The corporations who always held their customers accountable for paying their bills are, in turn, being held accountable by their customers for the reliability of their goods and services. We are beginning to see manufacturers held accountable for the personal safety of those from whom they profit. The users of our minerals, forests, waterways are being charged to protect our environment. Processors discharging wastes into the air are held accountable for the life's breath of the areas in which they operate. Even previously untouchable institutions, such as the Atomic Energy Commission, are being made accountable. The national press is being asked for a public "bookkeeping" of its privileges, and so are the police forces of the land. . . . There is a certain aspect of the ludicrous in accepting the fact that the oldest basic ingredient in man's relationship to man—plain, blunt honesty—should emerge again as a brand new instrument of revolution to change our society for the better.³²

Familiarity with changing societal values is evident in the fact that the codes show considerable concern for the reputation of individual firms, and some concern for the reputation of the free enterprise system generally. Still, the codes reveal a conviction that responding to outside concerns about social responsibility and ethics—concerns that most certainly will lead to assessing the reputation both of individual companies and of private enterprise—does not require enlightening dialogue between corporation executives and the persons whose lives are affected by a firm's activities. The tendency is for executives to view the firm and its key agents as the ultimate authority for all policies and standards of conduct and to try to manage corporate ethics in the same way they manage profits—privately and authoritatively.

Corporation executives also seem to consider themselves, not the broader society or even some part of it, as the "conscience of the corporation." They try to diffuse their own professed ethics downward through a control system already in place in the corporate structure. Perhaps this means that more input from relevant publics is still needed. Indeed, there is some evidence that since the time their codes were published, corporation chief executives have become more and more responsive to these publics. For example, a survey conducted in 1978 revealed that the chief executives of the *Fortune* 1000 gave an average of 40 percent of their time to public issues that affect their company, as compared to an average of

only 20 percent identified by a similar survey conducted in 1976.³³ Several commentators also have noted that there is a growing shortage of chief executive officers with the broad social perspective now essential to administering the affairs of a large corporation.³⁴

We also have observed that the codes seem to reflect a naive belief that existing and largely unstated oversight and surveillance procedures, coupled with stern statements about the importance of ethical conduct, are sufficient to ensure that a firm's ethical standards will be followed. Stated negatively, the codes in many respects tend to imitate the criminal law and thus contain few innovative ideas about how the ethical standards of a firm, let alone of business in general, can be improved. Perhaps because the codes' authors are aware that significant publics, including government regulators, have been demanding corporate responsibility and even corporate codes of ethics, all the codes either state or clearly imply that profits should be acquired only within ethical limits. Perhaps because the authors were hopeful that corporate self-regulation might stave off political regulation, the majority of the codes also have something to say about a firm's private enforcement procedures. But these statements reflect a high degree of confidence that the tools for setting ethical limits and, thus, for self-regulation are already present in the system of corporate organization. There are many reasons for believing that this high level of confidence is questionable. Not the least of them is the fact, well documented in the sociological and social psychological literature, that behavioral change is almost always linked to structural (organizational) change.

Our study did not address the question of effectiveness. Interviews with external and internal auditors of large corporations convinced us that there is no practical way of measuring any effects the codes might have had on the conduct of corporate personnel. Most auditors were confident, however, that the codes have made a difference. Other persons with access to corporate records, and in a position to observe the behavior of corporation personnel, have noted the same thing.³⁵

It seems safe to conclude that any ambiguity concerning the ethical character of under-the-table payments has been removed and that use of such payments to secure contracts and maximize sales has declined. We recognize that some companies are still hiding in the grass, and we suspect that others are using ingenious methods and front men to make illegal payments. Nevertheless, the bribery rate appears to be down. It also seems safe to conclude that the business community as a whole is showing greater concern for other practices now widely considered unethical—maintaining unsafe working conditions, marketing dangerous products, polluting the environment, and engaging in discriminatory hiring and promoting practices.³⁶ The question is whether these changes can logically be used as evidence of the codes' efficacy.

We are convinced, again by admittedly shaky evidence, that any improvements in business ethics taking place in the last decade are not a

consequence of business leaders' calls for ethics or of the codes themselves. We believe that, instead, any changes have stemmed from conditions imposed by outsiders. These include: a New York Stock Exchange requirement that each of its listed members have a board-level audit committee made up of persons who are not managers; stockholder placement of more outside members on boards of directors and assumption of more responsibility by these outside directors; SEC directives to the effect that outside auditors must be more directly concerned with the detection of management fraud than traditionally has been the case; enactment of the Foreign Corrupt Practices Act, which requires corporations to maintain adequate accounts, records, and books; and public pressure for enactment and enforcement of regulatory laws pertaining to toxic substances, wilderness preservation, waste disposal, affirmative action, product safety, and occupational health and safety.

Each of these five actions, significantly enough, is a structural change that modifies some aspect of corporate organization or business practices. Each is therefore likely to be more effective in changing conduct than the principal behavior modification techniques used in the codes (simple admonitions to be ethical, ethical admonitions accompanied by close surveillance, and ethical admonitions accompanied by threatened, if unspecified, punishments).

The codes we have examined thus reflect a misplaced confidence that behavioral change will follow from mere ethical preaching and ethical modeling. Operational steps to eliminate the organizational "place" that unethical behavior has had in corporations are all but ignored. Corporation personnel have been told in sincere publications that they should be ethical, but these codes have done very little to relieve the organizational pressures to be unethical. "A certain amount of tension [about maximum performance] is desirable," Paul Lawrence, professor of organizational behavior at the Harvard Business School, recently declared. "But in many companies the pressures to perform are so intense and the goals so unreasonable that middle managers feel the only way out is to bend the rules, even if it means compromising personal ethics."³⁷ If Professor Lawrence is correct, then corporate codes of employee conduct are trying to encourage ethical behavior in the midst of corporate organization that continues to discourage it.

Finally, it must be concluded that the ethical codes proliferating since the time of the questionable payments scandal have not been dramatically effective in other respects. They have not, for instance, staved off government regulation. Passage of the Foreign Corrupt Practices Act and other criminal and administrative laws pertaining to business attests to that. And there is no evidence suggesting that publication of the codes has convinced America's opinion leaders that corporations have become more ethical and socially responsible in recent years. Indeed, the current administration in

Washington has committed itself to giving business "regulatory relief" which promises to undermine many of the structural inducements we believe account for much of the improved performance of business in recent times. Stanley Marcus, chairman of Neiman-Marcus, has observed that businesspersons who support extreme "regulatory relief" are their own worst enemies:

Who among the business community today would seriously propose that Congress repeal our child-labor laws—or the Sherman Antitrust Act? The Federal Reserve Act, the Securities Exchange Act? Or workmen's compensation? Or Social Security? Or minimum wage? Or Medicare? Or civil rights legislation? All of us today recognize that such legislation is an integral part of our system; that it has made us a stronger, more prosperous nation—and, in the long run, has been good for business. But we can take precious little credit for any of the social legislation on the books, for business vigorously opposed most of this legislation.³⁸

Such opposition, Mr. Marcus maintains, is a source of the public's lack of confidence in the business community and is a legacy that business will have to struggle hard to overcome. A 1979 article concluded that business is clearly capable of self-regulation but that any significant alteration of public attitudes toward corporate morality is likely to turn on whether or not the private sector can "provide assurances of [its] dedication" to protecting and promoting the public interest.³⁹ Our overall conclusion is that corporate codes of conduct have not done much to provide such assurance.

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