SUNY COLLEGE AT BROCKPORT

The Evolution of Organizational Ethics Initiatives and the Case for Corporate Codes of Conduct

HON 490
Senior Honors Thesis

Presented in Partial Fulfillment of the Requirements
for graduation in the College Honors Program

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Spring, 2010

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Introduction

When the goal of commerce is profitability, there exists an inherent risk for business people to maximize their personal wealth, thus acting unethically. This moral hazard has been a permanent factor in business despite society's efforts to control or legislate the questionable behaviors of business organizations and individuals. Still, ethical lapses remain.

As is the case with most things, only a small percentage of companies in the business world have been guilty of unethical behavior. The minority of unethical, dishonest and corrupt people have tarnished the reputation of the entire business sector, prompting the government to increase regulation and companies to develop comprehensive ethical programs and monitoring systems. Topics such as corporate governance, environmental sustainability and ethics officers are of ever growing importance both within companies and the broader corporate environment.

This paper will first lay out some significant events in the progression of the field of business ethics. There will be discussion on some of the more important business scandals and events throughout U.S. history that laid the foundation for ethical initiatives today. Next, it will discuss the reasons why individual organizations create codes of ethics and some growing trends in the field. Finally, it will discuss how codes of ethics can create both value and negative consequences in an attempt to seek out why firms create codes of ethics.

Background Information

Business scandals have been quite common throughout the course of the U.S. history. Events that occurred in the business sector have prompted scholars and individuals alike to begin thinking about ethics, ideas that have been contemplated since the time of Aristotle and Plato, as they pertain to business. One of the first dramatic business events that occurred was the breaking up of Standard Oil Company. Standard Oil was established in 1870 and soon grew to be the largest multinational corporation in the United States.

The United States has traditionally held the notion that competition should be a necessary element in the economy. Adam Smith, a pioneer of modern economics in the eighteenth century, believed that the economy functioned at its best when every man was free to bring his resources into competition with his neighbors (Manning, Cronon, Lamar, 1964, p.x). Increased competition caused sections of the U.S. economy to become uncompetitive as big corporations forced smaller entrepreneurs out of business. Monopolies became a way for businessmen to control portions of the economy, and sensing profits available, there was a growth in the quantity of monopolies.

The growth of monopolies led to a political movement in opposition. Smaller businesses and entrepreneurs were powerless to stop the monopolies from ruining their chances at profit and so they turned to politicians for help (Manning et al., 1964, p.xi). Americans have always held value in equal opportunity and so, unfair competition became an important issue in modern politics.

Standard Oil Company, founded by John D. Rockefeller, was the first corporation in which the U.S. government intervened in order to promote fair competition. Rockefeller had great ambitions for Standard Oil and desired to create a large interstate combination of refineries, pipelines and other resources. Rockefeller decided to create a trust, which was an arrangement whereby one individual holds property for the benefit of another, in order to make the arrangement less transparent (Manning et al., 1964, p.16). Nine trustees were able to direct the management of all of the companies, which created a national monopoly. An important aspect of this trust was that it was conducted in secret and no one except the trustees knew about the agreement.

The business environment changed dramatically when Congress passed the Sherman Anti-trust Act in 1890, an act that made it illegal to engage in activities that restrained trade. Standard Oil Trust was brought under investigation under this act in February of 1888 by the New York Senate (Tarbell, 1905, p.131). There were several long and drawn out investigations into Standard Oil, and after several court battles Standard Oil was broken up into 34 independent companies, each having different boards of directors ("Dismantling of Standard Oil Trust"). This was one of the first times the government intervened in the business sector.

The next wave of regulation in the business sector occurred not long after the dismantling of Standard Oil Company. Toward the middle of the nineteenth-century, Americans began to worry about the quality of the food supply (Young, 1989, p.31). Eating adulterated or unsafe food was very troublesome because it led to severe sickness or even death. In 1906, Upton Sinclair published the breakthrough novel *The Jungle*, which exposed the true extent of unsanitary conditions that were occurring in the meatpacking industry. There were other concerns across the country about adulterated drugs. Citizens were unsure of what the food they were eating actually contained and had no idea if it was produced in a safe and sanitary manner.

In order to address such fears, the federal government passed regulations and laws to assure Americans that they were consuming the highest quality of food. The Food and Drug Act of 1906 was the first push towards this cause and was the first step towards creating consumer protection laws. The legislation gave the Food and Drug Administration "the power to regulate in interstate commerce misbranded and adulterated foods, drinks, and drugs" (Steiner & Steiner, 2009, p.488).

In addition, individuals began viewing child labor, which was quite common throughout the course of U.S. history, differently. Child labor had always existed in American history but it wasn't until the Industrial Revolution that child labor became a prominent factor in business. As work moved from farms to factories, children were often preferred because factory owners viewed them as more manageable, cheaper and less likely to strike (Child Labor Public Education Project, p.1). Children worked in cotton mills where the working conditions were often uncomfortable and harmful. The factories were very hot and in some factories, the windows were only allowed to be open a crack ("Child Labor: The Mills", p.3). Along with the heat, workers in the mills were exposed to the particles from the cotton lint, leading to a condition called "brown lung", which causes difficulty breathing and eventually disability or even death ("Child Labor: The Mills", p.3).

One of the main objections to child labor was that it took away the chance for children to gain an education. Child labor, therefore, created a population of citizens that were uneducated and often illiterate. These people were participating in American Democracy but understood very little about the process or the true merits of candidates. As a result, the first child labor laws were introduced in the early 1900's. These laws didn't hold up to constitutional scrutiny until 1938 (Child Labor Public Education Project, p.1).

Another business scandal that received a large amount of attention in the 1900's was the Teapot Dome scandal. The scandal's name comes from the center of the controversy, which was an oil field on public land in Teapot Dome, Wyoming. The oil reserves had originally been set aside for use of the Navy by President Taft, but President Harding transferred control of the reserves to the U.S. Department of Interior in 1921. The rights to the land eventually were given to Senator Albert B. Fall once he became Secretary of the Interior. Senator Fall leased the land to Edward L. Doheny, from Pan American Petroleum, and Harry F. Sinclair, from Mammoth Oil Corporation. It was later discovered that Senator Fall had received gifts totaling nearly $404,000 from Doheny and Sinclair ("Teapot Dome Scandal", p.1). Charges were brought up against all of the parties involved in the illegal activities centered on the Teapot Dome oil fields. This scandal changed the way that Americans viewed business and the government collectively.

Even though scandals were quite common, the development of the field of business ethics was far from easy and, in the beginning, many academics saw it as a fad that would soon pass while others saw the field as a way to justify the decisions that businesses chose to make (De George, A history of business ethics, p.5). During the 1960's, the United States became a greater economic force and American-based multinational corporations grew significantly. Businesses were no longer small Mom and Pop operations and the societal image of business was changing from small to big business.

It was during this time that corporations, facing major criticism by the public, began to develop the concept of corporate social responsibility. Corporations were viewed as "being too big, too powerful, and guilty of antisocial and anticompetitive practices" and decided to use their power and influence for the good of other people, their communities and their environment (Lawrence & Weber, 2008, p.47).

Corporations spent large chunks of money on causes that weren't directly related to their line of business. For example, Andrew Carnegie, a steelmaker, was a great business leader who gave nearly all of his wealth to educational and other charitable institutions. Henry Ford, an automaker, developed programs to help his employees. A more recent example is that of Warren Buffet, who gave a large portion of his $44 billion fortune to the Bill and Melina Gates foundation and four other philanthropies (Lawrence & Weber, 2008, p.47). Business schools, realizing the importance, began teaching courses on corporate social responsibility, many of which are still taught today.

The academic field of business ethics fully emerged in the 1970s, prior to which there were only a few figures and courses that dealt with ethics as it relates to business. The first conference in business ethics was held in November 1974 at the University of Kansas, the result of which was the creation of more formal courses being taught on the subject in universities around the country. In the late 1970's, a larger number of textbooks were written about business ethics and the market readily accepted them as demand for courses covering business ethics grew.

The development of the field wasn't limited only to textbooks and conferences. By the mid 1980's, there were at least 500 courses taught in business ethics, in addition to ethics societies, centers and journals (De George, A history of business ethics, p.7). The Society for Business Ethics began in 1980, while other societies, like the International Association for Business and Society, began to focus more on ethics than it had in the past. During this time, business ethics was gaining momentum as a field outside of academia.

The government also weighed in by introducing significant legislation that helped pave the way for corporate codes of ethics during the 1960's and 1970's. In 1964, the United States enacted the U.S. Civil Rights Act, which prohibited the discrimination on the basis of race, color, religion or national origin. Then, in 1977, following bribery scandals involving American firms, the U.S. government passed the Foreign Corrupt Practices Act. This act prohibited U.S. companies from giving payments to individuals in order to receive special treatment.

Business ethics began including causes that were considered legal at the time, including bribery and civil rights issues, and soon became the focus of corporate ethics initiatives. The

Sullivan Principles were adopted in 1978 by General Motors and other U.S. companies, GM being one of the largest employers of African Americans in South Africa, where the harsh practice of segregation and discrimination was taking place, mainly against the country's indigenous black population ("Global Sullivan Principles of Social Reasonability", p.1).

The principles demanded equal treatment of employees, both inside and outside the workplace, which directly conflicted with South African policies of apartheid. These were not pieces of legislation, nor were the organizations required to follow them. This was a major step for companies to not just abide by laws but also go above and beyond written law to be socially responsible. The principles were in effect until the government ended apartheid and before that time, more than 100 firms adopted the principles and spent $350 million to comply (Steiner & Steiner, 2009, p.346).

Although companies were doing more to become socially responsible, ethical lapses still occurred. In 1985, when the United States was rapidly building ships, aircrafts, weapons and other systems to support the fight against the Soviet Union, allegations of improprieties in procurement were brought into question, both by the government and the industry. These events led President Ronald Regan to appoint the 1986 Blue Ribbon Commission on Defense (also known as the Packard Commission), which was created in order to track the budget process, the procurement system and the organizational and operational arrangements between industry and the government (ECOA, History of the ECOA, p.1).

In February of 1986, the Packard Commission observed that instances of waste, fraud and abuse both within the defense industry and within the U.S. Department of Defense had shaken the public's confidence in the defense industry ("Defense Industry Initiative on Business

Ethics and Conduct", p.1). Defense contractors were placing profits above their ethical and social responsibility.

Furthermore, horror stories of waste by the Pentagon and fraud by defense contractors, that included $400 hammers and $600 toilets, had eroded the publics confidence in the defense sector, leading to polls showing a sharp decline in support for increased military spending (Thomas, Seaman, & VanVoorst, 1986, p.1). The Packard Commission was vital in reshaping the public's opinion of the defense industry.

The Packard Commission not only spotted fraud but also noted that the budget process was in need of a major overhaul. Weapons systems had cost too much to produce and the rigid procedure made it difficult to make decisions that should have been centralized (Thomas et al., 1986, p.2). The Packard commission then concluded, "to assure that their houses are in order, defense contractors must promulgate and vigilantly enforce codes of ethics that address the unique problems and procedures incident to defense procurement. They must also develop and implement internal controls to monitor these codes of ethics and sensitive aspects of contract compliance" (ECOA, History of the ECOA, p.1).

This led to the creation of the Defense Industry Initiative (DII), which was made up of a large number of defense contractors (initially signed by thirty-two but soon included more than fifty), who came together to develop a model for an internal ethics and compliance program. The DII provided a way to bring together the whole defense industry and have them cooperate within the industry. Every company that chose to sign the DII agreed to adhere by the following six principles (Kurland, The Defense Industry Initiative, p.138):

1. Each company will have and adhere to a written code of business ethic and conduct.

2. The company's code establishes the high values expected of its employees and the standard by which they must judge their own conduct and that of their organization; each company will train its employees concerning their personal responsibilities under the code.

3. Each company will create a free and open atmosphere that allows and encourages employees to report violations of its code to the company without fear of retribution for such reporting.

4. Each company has the obligation to self-govern by monitoring compliance with federal procurement laws and adopting procedures for voluntary disclosure of violations of federal procurement laws and corrective actions taken.

5. Each company has the responsibility to each of the other companies in the industry to live by standards of conduct that preserve the integrity of the defense industry.

6. Each company must have public accountability for its commitment to these principles.

These principles called for each individual signatory company to adopt a code of conduct and for each company to determine the standards for themselves. Thus, no standards were set for the industry as a whole.

Throughout the 1980's, the effort to develop internal monitoring systems for ethical issues was largely confined to the defense industry. That was until 1991 when the government enacted the United States Sentencing Guidelines for Organizations, which raised fines for white-collar crimes but also provided a way for companies to reduce fines. If a company could prove it had an "effective program for preventing and detecting" wrongdoing, it could reduce a fine by 95% (ECOA, History of the ECOA, p.1). The guidelines for determining culpability are based on whether or not the firm has (Lawrence & Weber, 2008, p.93):

1. Established standards and procedures to reduce criminal conduct.

2. Assigned high level officer(s) responsibility for compliance.

3. Not assigned discretionary authority to “risky” individuals.

4. Effectively communicated standards and procedures through training.

5. Taken reasonable steps to ensure compliance- monitor and audit systems, maintain and publicize reporting system.

6. Enforced standards and procedures through disciplinary mechanisms.

7. Following detection of offense responded appropriately and prevented reoccurrence.

The bases for effective codes of ethics as defined in the United States Sentencing Guidelines were largely mirrored by the models that the defense industry was already using.

For this reason, organizations began to seek out expertise that came from the Defense Industry Initiative so they could implement codes of ethics inside their individual organizations. The result of such a large number of organizations collective efforts to include ethics into their corporate structure led to the creation of the position known as the Corporate Ethics Officer, and in 1992, the Corporate Ethics Officer Association was established to guide this newly created position.

More recently, the U.S. passed the Sarbanes-Oxley Act of 2002, following a large number of ethical mishaps involving prominent corporations, like Enron and Arthur Anderson. Prior to the scandal, Enron had been one of America’s largest corporations, employing more than 21,000 staff in more than 40 countries (“Enron scandal”, p.1). It was later discovered that the firm’s success had been tied to an elaborate scam that ruined many careers.

Enron was able to modify its financial statements so that it appeared to be making a profit, when it was in fact, sustaining deep losses. Furthermore, Enron was able to conceal debts so that they did not appear on the company's financial accounts ("Enron scandal", p.1). Arthur Andersen, Enron's accounting firm, was found guilty of criminal charges related to the handling of Enron's financial statements. The verdict was subsequently overturned by the United States Supreme Court but the blow to the firm's reputation was such that Arthur Andersen never went back into business.

The Sarbanes-Oxley Act requires, among other things, that the CEO and CFO certify the accuracy of the corporate financial statements. This requirement assures that the CEO and CFO will be held accountable if there is any error in the financial statements. A new wave of legislation is likely approaching following the rise of corporate scandals that occurred in the wake of the 2008 Wall Street debacle that saw the U.S. government bail out the investment banking industry.

The notion that ethical scandals are still occurring, despite legislation and widespread adoption of corporate codes of ethics, begs the question, what's the point of having corporate codes of ethics if they aren't being followed? Do organizations use codes of ethics as an internal compliance method or for external appearances? This paper will examine the purposes of codes of ethics within organizations and the broader corporate environment.

Codes within Individual Organizations

Business life is confronted with many different forms and complexities of ethical problems. Some common types are: fraud, unfair competition, unfair communication, non-respect of agreements and unfair attitudes towards and treatment of stakeholders through abuse of power or due to conflicts of interest (Fassin, 2005, p.267). Non-ethical behavior can occur at all levels of an organization and most cases are so diminutive that they are never seen in the press or even in a courtroom.

It's hard to pinpoint the reason for increases in unethical behavior in business but some can be attributed to the problem of business people trying to maximize profits, at whatever cost necessary. This can be traced back to the Anglo-Saxon dominant business model where money is increasingly important in society and material gain is glorified above all things (Fassin, 2005, p.269). Additionally, immediate results are common in the U.S., which can tempt executives to behave dishonestly to achieve short-term financial progress while forsaking both their morals and the long-term health of an organization.

It's important to recognize that businesses are seen as separate entities and the characteristics of the firm are derived from the people who work there (Arthur, 1984, p. 322). That is, the actions of the individuals within the firm dictate whether or not the firm will be viewed as ethical or unethical. The firm itself cannot be ethical or unethical, only individuals within can be labeled as such. Many firms are unwilling to conduct business with a firm that doesn't have a code of ethic within the organization.

As such, it's difficult to find a major firm today that doesn't have some type of code of ethics within the organizational framework. In the U.S., over ninety percent of large corporations have a code of ethics and that number continues to rise as the government, special interest groups and professional associations increasingly call for the establishment of corporate codes of ethics (Schwartz, 2002, p.1). It's questionable how effective these codes have been at deterring unethical behavior.

A recent U.S. Business Ethics Survey conducted by the Ethics Resource Center shows that while there has been a rise in the number of formal ethics and compliance programs, ethical misconduct is back at pre-Enron levels (Calderón-Cuadrado, Álvarez-Arce, Rodriguez-Tejedo & Salvatierra, 2009, p.1). With such a hefty number of large U.S. corporations having some type of code of ethics within the organization, it's counter-intuitive that ethical scandals are on the rise.

It's crucial to look at why firms establish codes of ethics in the first place in order to find an explanation for this deviation. Many firms do so in order to have a clear and concise set of guidelines for employees to follow when conflicts arise. Having a code for this reason promotes a positive workplace and fosters positive externalities that are transparent through all layers of the organization. Businesses may also establish codes of ethics after a public scandal in order to win back customers and regain consumer confidence. On the other hand, some codes of ethics may simply be public relations tools that aren't taken seriously within the organization.

Corporate Codes of Ethics and Employees

Having a code of ethics in place is an indication that the organization believes there is some value in ethical behavior, while the absence of a code sends the message that management does not believe ethics is important (Adams, Tashchian, & Shore, 2001, p201). Many firms establish codes of ethics as a way to guide employees. Employees know the most about what is taking place and therefore usually know what type of, if any, misconduct is occurring. Because of this, employees should be incorporated as the first line of defense against ethical problems (Calderón-Cuadrado et al., 2009, p. 199). Unless employees are willing to report misconduct, a code of ethics will never be successful.

A code of ethics is an important management tool because it signals that a firm is no longer just thinking and speaking about ethical issues, it is moving into the area of taking action. This is most successful when an employer has the employees sign the code and when management reinforces the code regularly. This way, there is a signal from top management that the rules and procedures will be enforced, and that the complaints will be taken seriously. Additionally, compliance programs give employees a clear set of examples to what is considered acceptable and unacceptable behavior and what is expected of them while they are in the workplace ("Codes of Conduct Shore Up", 2009, p.1).

In cases of serious lapses in judgment, codes of conduct are a useful tool because an employer can easily refer back to what the code requires, if needed. Therefore, by communicating the laws, policies and procedures that are deemed acceptable for every employee the risk of litigation and corporate image damage is greatly reduced ("Codes of Conduct Shore Up", 2009, p.1). Employees know exactly what the consequences of their actions will be before they occur so they are less likely to engage in unflattering behavior. Additionally, since corporations can be held legally responsible for the actions of employees, codes are brought into place to protect the corporation (Adams et al, 2001, p.200).

A corporate code of ethics provides another important function for employees - it signals that business is moving from an occupation to a true profession. There are particular firms that operate within the business environment, the professions, that have a whole code of ethics dedicated solely to their profession, one of which are accountants. The accounting industry has the notion that it can keep itself regulated without any outside intervention. It has been proven that this is not always the case, with debacles such as the fall of Arthur Andersen and other public accounting offices. Nevertheless, the profession attempts to regulate itself.

What makes the profession different from other occupational groups is the special skills and knowledge base necessary to do the job. This is the same as the two most widely thought of professions- doctors and lawyers. As with doctors and lawyers, accountants are in a position where they must use discretion and judgment based on individual situations. Another parallel to the profession of doctors and lawyers is that the potential for personal and financial rewards can be vast. Additionally, professions have a code that guides their career. For example, doctors have the Hippocratic Oath, while lawyers have a code of professional conduct through the bar association. The defining factor is that all of these professions have a system in place that makes them accountable to a higher authority, which helps reduce the number of ethical lapses.

A Growing Organizational Function: The Ethics Officer

Given the importance of corporate codes of ethics to employees within an organization, a new organizational function is emerging: the Ethics Officer. Some companies have had ethics officers in place for some time but given new federal sentencing guidelines, it is likely that many more will be considering creating the position (Petry & Tietz, 1992, p.21). It is difficult to determine how many organizations have an ethics officer in place because the position is relatively new and not formally defined. The best estimate is that fifteen to twenty-five percent of Fortune 500 companies have someone to oversee corporate ethics programs (Petry & Tietz, 1992, p.21).

The ethics officer is an increasingly important part of an organizations strategy to develop tactics to manage internal ethics programs (Adobor, p.56). This role is appointed to an individual in the organization who will be responsible for ethical conduct and social responsibility. The presence of an ethics officer indicates to employees that management is committed to ethical conduct and promotes a belief that such behavior is normative (Izraeli & Barnir, 1998, p.1191). This, in turn, will lead employees to mimic ethically sound behaviors.

Unfortunately, some preliminary evidence has shown that ethics officers have little impact on deterring unethical behavior in organizations. Even worse, the evidence has shown that some managers have doubts about the effectiveness of ethics officers (Adobor, p.59). Some of this evidence may be due to the novelty of the ethics officer position. Many organizations haven't had a chance to evaluate and define job responsibilities and even those that have are not standardized across the board. Many people both inside and outside the organization, such as employees, management, the Board of Directors and shareholders, may have conflicting views on what the ethics officers' job functions truly are, which creates ambiguity for the ethics officer.

Role ambiguity occurs when a role performer lacks the proper information required to do their job correctly, receives conflicting messages from different role senders or when an ethics officer lacks personal knowledge of their job duties (Adobor, p.61). This ambiguity can lead to undue stress for the ethics officer and make him unable to perform his job efficiently. On the other hand, some individuals have no problem dealing with ambiguity.

Additionally, an ethics officer must have a sound moral background. That is to say, an ethics officer must have a clear understanding of the difference between good and bad, right and wrong in addition to a proper understanding of the laws and regulations guiding ethical behavior. It is also important to have an ethics officer that is approachable, so that employees will feel comfortable discussing personal and, sometimes, upsetting matters.

Other troubles within the organizations involved the degree in which ethics officers become involved in investigations. Some ethics officers are actively involved in the investigation of cases, while others like to keep a further distance. The hands-on approach ensures consistency and gives employees a way to speak to someone they know but can also lead to problems.

When an ethics officer is solely responsible for all investigations, there becomes limits on the amount of time it takes to settle a case. Additionally, there could be conflicts of interest, perceived or otherwise, or the appearance of favoritism (Petry & Tietz, 1992, p.23). To combat some of these problems, an ethics officer must maintain his unbiased demeanor. By doing so, the ethics officer minimizes the risk of lawsuits or the tarnishing of reputation.

In order to create an efficient ethics officer position, a firm must be able to adequately describe the ethics officers' job functions and duties. This will reduce ambiguity and conflict. To help with this, firms' must allow ethics officers to participate in extensive training since the position is relatively new. Training will help ethics officers say abreast to all new information that is occurring in the profession. Lastly, it is important for firms' to choose the right type of personality in an ethics officer. The individual who holds the ethics officer position will need to professionally and tactfully handle sticky situations.

While most of the duties performed by the Ethics Officer go above and beyond the scope of what is legal, Compliance Officers evaluate, examine and investigate how well an organization is complying with laws and regulations. This individual can be a valuable resource in making sure an organization is complying with all applicable laws and regulations, but they typically don't provide guidance on issues beyond the scope of the law. There is also a third position being created in organizations, called an ombudsperson, who is "an impartial, confidential and informal resource for resolving conflicts within the organization" (Lawrence & Weber, 2008, p.124).

Externalities from Ethical Initiatives

In addition to lowering fines in accordance with the U.S. Sentencing Guidelines and being valuable to employees, codes of conduct create other meaningful benefits. First, ethics may be useful in creating a competitive advantage by setting the standard that all firms in the industry adopt the same kind of ethics. Business ethics can create a monopoly for firms already in compliance against those that are not (Husted & Allen, 2000, p.26). Moreover, this can create a cost advantage and thus a short-term competitive advantage with respect to firms that do not comply.

One example of this is Chrysler, which, in 2006, urged Congress to adopt higher fuel efficiency requirements for cars in the U.S. General Motors, one of Chrysler's main competitors, had lower costs because it did not comply with the standards. Chrysler still obtained a competitive advantage because it was already in compliance with the fuel efficiency requirements since it established the same standards for all competitors (Husted & Allen, 2000, p.26). Ultimately, Chrysler went above the minimum expected in the industry and made it the norm for a car manufacturer to have higher fuel efficiency requirements. Consumers began expecting all cars to have high fuel efficiency and eventually General Motors had to comply, which drove its costs up temporarily.

It is the view of Dov Seidman, a management guru, that "companies that out behave their competitors ethically will generally outperform them financially" (Murphy, 2010, p.90). According to this view, doing the right thing, but deterring profits can sometimes pay off in the long run. One example is that of Pfizer, which had a less than stellar reputation. In 2009, Pfizer decided to supply seventy of its brand name drugs free of charge for a year, due to the large number of people who lost their jobs during the recession (Murphy, 2010, p.90). This move cost the company millions of dollars in profit but paid off in the long run. Pfizer CEO, Jeffrey Kindler, says the move got a great response from customers and believes it will help the company in the long run (Murphy, 2010, p.90).

Being a socially responsible corporation also provides several key benefits to corporations. First, voluntary acts may head off government regulation (Lawrence & Weber, 2008, p.51). If a firm is already doing an act without having a regulation in place, the corporation has more freedom to act. Regulations tend to restrict flexibility and freedom in decision making, which can help businesses keep their own initiatives (Lawrence & Weber, 2008, p.51).

Secondly, social projects can produce long-term business profits for corporations. This notion can be proved by looking at an example from the Johnson & Johnson Tylenol incident. Quite a few people died during the 1980's after taking Tylenol that was laced with poison cyanide. Johnson & Johnson called back the drug immediately, which cost the firm millions of dollars in the short term, because it was unsure of where the poison came from and if any more existed in the marketplace (Lawrence & Weber, 2008, p.51). The tainted drugs ended up being a solo incident and were not caused by Johnson & Johnson. This was a smart decision by Johnson & Johnson because today people still purchase its products regularly and the company is once again profitable.

Corporate social responsibility also improves the reputation of a firm. A firm's reputation is a valuable intangible asset, as it helps attract loyal customers, and good employees which can help create value for the firm (Lawrence & Weber, 2008, p.52). Candidates interested in a job may place very heavy emphasis on the public reputation of a certain firm, prompting very well qualified candidates to seek out organizations that have good reputations.

On the other hand, it has been argued that codes of ethics create as many negative externalities as they do positive. Ethics have been looked at as a good business investment because they are the first step in creating trust with various inside and outside stakeholders (Schwab, 1996, p.499). This trust is essential for loyal and inventive long-term cooperation, which will create synergies.

The problem is that long-term self interest does not always lead to ethical behavior (Schwab, 1996, p.499). Ethical standards vary greatly throughout the world and can create disadvantages for businesses operating within the United States. For example, in many parts of the world bribery and corruption are widespread. Without giving someone a payment or a bribe, a business may have trouble exporting or importing goods into specific countries. Lax environmental standards and less than truthful advertising can create an advantage for companies who engage in this type of behavior, as it lowers costs.

Ethical initiatives can also become solely a public relations tool. If a firm's ethical behavior resides in the fact that it shows other what a good business partner they are, ethics becomes driven by public relations (Schwab, 1996, p.500). A firm would do whatever it could to publicize its ethical actions. This creates potential problems because if a firm knew that an ethical but profitable action would never see the light of day, would they still permit that action? (Schwab, 1996, p.500). This is the danger of viewing ethics solely as a public relations tool.

An Analysis of Codes of Ethics in Individual Organizations

As stated before, codes of conduct are the most successful when they are distributed to employees and signed, but many codes of ethics are lengthy and it is doubtful that employees read all, if any, of the content. For example, Starbucks' Standards of Business Conduct, which is distributed as part of its ethical awareness materials, is almost thirty pages in length. Expecting an individual to actively read and digest that much information is very unlikely.

Given the fact that employees should be able to easily read and refer back to a code of ethics, it is ill-advised that codes of ethics are so drawn out. Codes of ethics should be as short as possible so that employees can easily remember most of what the code says. Codes should be so short that they should be able to be memorized and repeated. The Boy Scout Law is a perfect example of what a code of ethics should be. The Boy Scout Law is straight to the point and easily remembered, even by young boys who participate in Boy Scouts. It states:

A scout is: Trustworthy, loyal, helpful, friendly, courteous, kind, obedient, cheerful, thrifty, brave, clean, and reverent ("Boy Scout Oath", US Scouting Service Project, p.1).

Codes of ethics should also be tailored to the unique attributes of each individual organization. This is not usually the case because, referring back to the DII, if a corporation wants to reduce white collar fines, they have to show they have an effective program for detecting and preventing wrong-doing. The codes are tailored to this purpose, which makes them not only lengthy, but also similar to codes of ethics of organizations that aren't even in the same industry.

Take two well-known companies that aren't in the same line of business, Starbucks and Verizon. The first section of Starbucks' code of ethics contains information on how employees are to treat each other in the workplace environment and Verizon's first section is titled "maintaining an inclusive, fair and healthy work environment" ("Verizon Code of Conduct", p.4). The subsections of each company's code of ethics basically include the same core topics: Diversity, workplace health and safety, substance abuse and weapons, and how employees are to be treated and treat each other.

Much of the reason that the same topics appear in companies' codes of conduct, regardless of what industry or line of business they are in, goes back to the Defense Industry Initiative. Companies who signed the DII had to adopt the six basic principles discussed above, but these standards were not industry wide. Each individual organization could determine the best standards to include in its code of conduct but many included the same basic ideas in order to adhere to the six basic principles set forth by the DII. Because of this, many organizations chose to include the same basic concepts in their codes to be eligible for the lowering of fines in adherence to the U.S. Sentencing Guidelines for Organizations.

Additionally, many items addressed in code of conducts are a reiteration of federal and state laws. Including laws into codes of conduct provides a way to ensure that employees are up to date on current laws and regulations and can prevent lawsuits by creating less ambiguity. This helps protect employers from law suits and other negative consequences.

Globalization and Ethics

Globalization has transformed the world's economy and provides many opportunities for firms that operate worldwide. According to the United Nations estimates, there are about 70,000 transnational corporations operating in the economy (Lawrence & Weber, 2008, p.140). The global marketplace provides a way to reach new markets, new suppliers and buyers and new ways to obtain financing. Doing business in this developing and ever changing world marketplace can also bring about many challenges.

When conducting business abroad its important to note that not all corporations operate and conduct business the same way that corporations in the United States do. The nations of the world differ greatly in their political, social, and economic systems. Many countries still lack basic democratic rights for its citizens and even those that day, limit the influence individuals can have on policy. Even worse, some countries fail to provide basic human rights to all of its citizens. This can be challenging for corporations. For example, should a firm operate in a country that is known for violating the human rights of its citizens? (Lawrence & Weber, 2008, p.152). These are tough questions and are attempted to be answered with global codes of corporate conduct.

Global codes of corporate conduct are an attempt to address the challenges and questions that arise for transnational companies as they try to deal with a large variety of laws, regulations, cultures and stakeholder exceptions (Lawrence & Weber, 2008, p.153). There has been an attempt by international organizations to address some of the questions that are faced by multinational corporations. For example, the United Nations Global Compact was enacted in 2000 and covers basic principles such as “labor, human rights, and environmental standards and invited corporations to voluntarily endorse them” (Lawrence & Weber, 2008, p.153). The Global Compact was the single most important push to promote social responsibility for multinational corporations. The Sullivan Principles, discussed earlier in this paper, are another important attempt to address the challenges of globalization.

International codes of conduct are usually adopted in response to attacks on the multinational corporations operations or legitimacy. They are adopted so that the multinational corporation can respond to the critics and maintain good business operations. Multinational corporations in the apparel industry have been targeted by these types of critics for producing its products in sweatshops. In order to maintain a good brand image and reputation, companies like Adidas, Levis Strauss and Reebok have codes that address labor and human rights practices in their global supply chains (Steiner & Steiner, 2009, p.347). Starbucks protects its reputation by purchasing and selling Fair Trade Certified coffee. This label certifies that the company procures and sells its coffee beans in a responsible and ethical manner. Additionally, Starbucks adopted a Supplier Code of Conduct which promotes human rights, and fair labor and environmental practices along its entire supply chain (Steiner & Steiner, 2009, p.347).

It is not always easy or inexpensive to make sure these codes are being enforced. Many companies have to invest heavily to make sure that its standards are constantly being met. Nike, for example, maintains a department of eighty employees whose key function is to check on supplier conformity with its code of labor and environmental practices (Steiner & Steiner, 2009, p.347). Most companies are advocates for self-monitoring and reject monitoring by outsiders, which are less than transparent since many of the reports are undisclosed and the facts cannot be verified.

Sometimes an entire industry can come under attack by critics, which has resulted in industrywide codes of conduct. This initiative makes sense because companies in the same industry seem to face the same challenges and pressures. Additionally, a singular code can be less confusing than multiple codes. The industries that are most likely to have international codes are those which have been targeted by activists and need to band together to protect the image of the entire industry (Steiner & Steiner, 2009, p.350).

The toy industry created a Code of Business Conduct after fires in Asian toy factories led to many deaths in 1995 (Steiner & Steiner, 2009, p.350). This initiative is a signal to stakeholders that the industry is taking accidents very seriously and doing everything in its power to assure it doesn’t happen again. The code is managed by the International Council of Toy Industries and so far about 150 companies have adopted the code. Compliance with the code is checked by independent auditors and is based on standards for labor rights and worker health and safety (Steiner & Steiner, 2009, p.350). Since most of the toys sold in the U.S. are manufactured in China, one aim of the code was to assure Western consumers that toys are made ethically.

There are other international codes for corporations set by different entities that vary on greatly based subject matter, some of which are more credible than others. The variety of the codes can be gauged by looking at a few examples. The Caux Roundtable Principles for Business are ethical principles based on the great religions. The purpose is to reinforce capitalism by making it more moral (Steiner & Steiner, 2009, p.351). There is also a Code of Ethics on International Business for Christians, Muslims and Jews, which sets forth an ethical framework based on religion. The Free Labor Association Workplace Code of Conduct is based on cooperative efforts between multinational corporations and stakeholders and consists of nine basic principles of international labor standards (Steiner & Steiner, 2009, p.352).

Conclusion

Much of the business history in the U.S. has been characterized by waves of laws and regulations in response to the unethical actions of business people and organizations. These laws and regulations are unfavorable to business. As a result, the business sector attempts to regulate itself through codes of conduct and other ethics initiatives. This helps prevent adverse regulation.

Evidence has shown that ethics initiatives create benefits for both employees and organizations themselves. These benefits range from creating cost advantages to being a useful tool in guiding employee actions, which reduces the risk of corporate damage. Companies who use ethics initiatives as a smoke screen do not experience benefits in the long-run, which demonstrates that being ethical is valuable in itself. Some companies do indeed enact ethics initiatives simply because it is the right thing to do.

As the dynamics of the business environment change, ethics initiatives will continue to change and evolve right along with them. This is already apparent from the development of chief ethics officers, industry codes of ethics and global codes of corporate conduct. While the moral hazard for business people to act unethically may always exist in business, the growth in the adoption of ethics initiatives demonstrates that organizations are attempting to put an end to unethical behavior for good.

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