

Corporate Codes of Conduct: The Effects of Code Content and Quality on Ethical Performance

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ABSTRACT. Corporate codes of conduct are a practical corporate social responsibility (CSR) instrument commonly used to govern employee behavior and establish a socially responsible organizational culture. The effectiveness of these codes has been widely discussed on theoretical grounds and empirically tested in numerous previous reports that directly compare companies with and without codes of conduct. Empirical research has yielded inconsistent results that may be explained by multiple ancillary factors, including the quality of code content and implementation, which are excluded from analyses based solely on the presence or absence of codes. This study investigated the importance of code content in determining code effectiveness by examining the relationship between code of conduct quality and ethical performance. Companies maintaining high quality codes of conduct were significantly more represented among top CSR ranking systems for corporate citizenship, sustainability, ethical behavior, and public perception. Further, a significant relationship was observed between code quality and CSR performance, across a full range of ethical rankings. These findings suggest code quality may play a crucial role in the effectiveness of codes of conduct and their ability to transform organizational cultures. Future research efforts should transcend traditional comparisons based on the presence or absence of ethical codes and begin to examine the essential factors leading to the effective establishment of CSR policies and sustainable business practices in corporate culture.

KEY WORDS: codes of conduct, codes of ethics, code content, code quality, ethical performance, CSR ranking system

ABBREVIATIONS: BCC: 100 Best Corporate Citizens; CSR: Corporate social responsibility; DJSI: Dow Jones Sustainability Index; GPA: Grade point average; WMEC: World's Most Ethical Companies; WMRC: World's Most Respected Companies

Introduction

The concept of corporate social responsibility (CSR) is gaining widespread attention from academics, businesspeople, and consumers. Indeed, the benefits awarded to socially responsible companies are becoming increasingly clear and tempting firms across all industries to directly address CSR issues. Commitment to ethical standards has been implicated in enhanced overall company performance through a variety of metrics, including increased financial performance (Orlitzky et al., 2003; Vershoor, 1998), reduced cost structures, product differentiation, and brand equity (Chen and Bouvain, 2005). While some of these gains are efficiency-based (e.g., reduced costs via recycling), the primary benefits result from companies aligning their products with consumer values. Indeed, the purchasing behaviors of modern consumers are being increasingly affected by the reputation and practices of the parent company, termed 'ethical consumerism' (Becker-Olsen et al., 2006; Castaldo et al., 2009). In addition, the negative consequences of violating ethical standards and potential costs of malfeasance have become increasingly concrete: from environmental fines to federal sentencing guidelines for corporate misconduct (Thompson, 2003), providing strong incentives to establish and communicate ethical standards to an organization's employees.

A formal code of conduct is a common CSR tool employed by companies to establish and communicate responsible business practices and an ethical organizational culture. These institutional documents, also referred to as a 'codes of ethics' or 'codes of business standards', are designed to explicitly detail an organization's commitment to CSR and

outline expected conduct from the organization's employees. These codes are perceived as fundamental to the establishment of CSR policies within an organization and essential to creating and sustaining an ethical organizational culture (Collins, 2004). Ideally, codes of conduct affect the organizational culture by governing the actions and conduct of employees through the promotion of ethical business practices, thereby avoiding legal consequences. Further, as tangible commitments to social responsibility, adopting codes of conduct may lead to reputational benefits by functioning as a symbol of CSR awareness and engagement, thereby preserving and legitimating the company's public image (Diller, 1999; Matten, 2003). Additional benefits of implementing codes of conduct may include product differentiation, risk management and reduced insurance premiums, reduced negative consumer actions (e.g., boycotts), and improved customer relations (Diller, 1999; Lenox and Nash, 2003); however, scarce empirical evidence exists to support these perceived benefits.

The proposed benefits associated with code of conduct establishment often parallel the rewards associated with an ethical organizational culture and hinge upon the implicit notion that comprehensive codes will lead directly to CSR performance gains. Many scholars have posited on the practical effectiveness of codes of conduct in leading organizational change and establishing a CSR culture, and a considerable number of empirical studies have addressed these claims. A recent review of over four decades of empirical research on this topic listed 27 studies reporting a significantly positive effect of codes of conduct, 13 studies reporting a weak effect, 26 studies reporting no significant effect, 11 studies reporting mixed results, and 1 study reporting a significant negative relationship (Kaptein and Schwartz, 2008). Variable results may occur for numerous reasons, including methodological differences (Schwartz, 2001) and industry- (Emmelhainz and Adams, 1999; van Tulder and Kolk, 2001) or country-specific factors (Bondy et al., 2004).

A key consideration that may contribute significantly to the mixed results from these studies is the variability in code of conduct quality among corporations, which may be a critical component of code effectiveness (Weaver, 1995). While numerous studies have investigated the content of codes (van

Tulder and Kolk, 2001; Jenkins, 2001; Gaumnitz and Lere, 2002) and their classification (Gaumnitz and Lere, 2004), these reports are primarily descriptive and do not attempt to correlate content with empirical measures of performance. Meanwhile, empirical studies have typically compared businesses based on the presence or absence of codes (reviewed in Kaptein and Schwartz, 2008), but make no distinction among code adopting companies based on the comprehensiveness, clarity, and scope of their ethical codes. Codes of conduct have recently become a nearly ubiquitous feature of modern business in North American (Chonko et al., 2003) and Europe (Sobczak, 2003) and have been established in the majority of large corporations worldwide (Kaptein, 2004). As the adoption of corporate codes becomes the norm, the incidence of insincere, rhetoric-based codes never designed to move beyond a cursory treatment of issues (i.e., 'greenwashing') is likely to increase. Analysis of code effectiveness based on code presence and absence may group companies with perfunctory codes alongside top CSR performers and obscure empirical results. Thus, a natural progression of CSR research is to investigate the importance of the quality, or comprehensiveness, of these codes and their effect on CSR performance.

To address the complex issues involved in determining the effectiveness of codes of conduct, Kaptein and Schwartz (2008) recently proposed an integrated research model. Their model specifically detailed the complex and interactive factors that may enable or impede effective codes of conduct within organizations and attempted to standardize empirical research efforts in the field. A central variable in the research model of Kaptein and Schwartz, and the focus of this study, is the content of business codes. Working within the research framework proposed by Kaptein and Schwartz, this study examined the effects of code quality (i.e., development and content) on CSR performance (i.e., meso- and macro-effectiveness, Figure 1). Effective codes of conduct have downstream impacts on employee conduct and corporate culture, termed micro-effectiveness, that lead to larger scale impacts on company stakeholders and society, termed meso- and macro-effectiveness (left column, Figure 1). The effectiveness of codes of conduct is, therefore, defined by the fit between corporate behaviors and the ethical standards and expectations of stakeholders and society. Defining variables that represent the complex processes

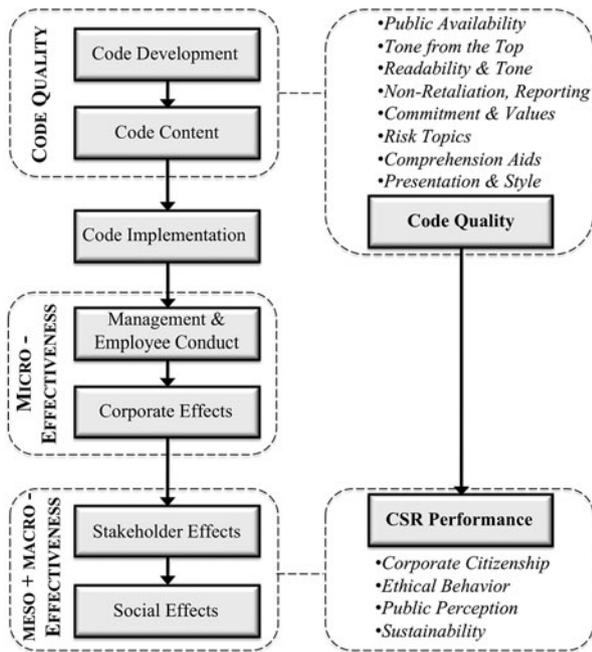


Figure 1. Theoretical framework and research model on the effectiveness of codes of conduct. *Left column* depicts the theoretical framework for the relationship between code of conduct quality and effectiveness on micro-, meso-, and macro-scales, based on the integrated research model proposed by Kaptein and Schwartz (2008). The seven sequential steps shown (top to bottom) correspond to steps 6, 7, 8, 12, 13, 14a, and 14b from the Kaptein and Schwartz model. The right column depicts the research model and specific metrics (*bullet points*) used to quantify the variables ‘code quality’ and ‘CSR performance’ and their relationship to the theoretical framework.

underlying code effectiveness is difficult, yet necessary for the empirical study of code quality and its effect on CSR performance.

In this study, code quality was used as a measure of comprehensiveness in the production and establishment of codes of conduct. Although quantified primarily based on code content, ‘code quality’ is defined herein as inclusive of code development and content (right column, Figure 1), due to the close link and overlap among these steps in the code formulation process. In theory, proper code development is a prerequisite for thorough code content, thus it seems reasonable to assume that comprehensive code content is representative of appropriate code development. In addition, code development

issues include consistency with stakeholder values and expectations (Stevens et al., 2005; Weaver and Treviño, 1999) and corporate values and objectives (Kaptein and Wempe, 1998; Webley and Werner, 2008), and these issues are addressed under the ‘Commitment and Values’ and ‘Tone from the Top’ components of code quality determination (Table I). CSR performance was used as a measure of the real and perceived ethical behavior of large companies. ‘CSR performance’ is defined as inclusive of meso-effectiveness metrics (stakeholder effects: corporate citizenship and ethical behavior) and macro-effectiveness metrics (social effects: public perception and sustainability, right column, Figure 1). The relationship between the code quality and CSR performance of companies, therefore, provides empirical insight into the theoretical framework of code effectiveness (Figure 1).

A broad analytical scope was employed to address the relationship between the quality of codes of conduct and the ethical behavior of companies, thereby providing empirical evidence for code quality (rather than code presence) as a determinant of code effectiveness on meso- and macro-scales. Qualitative and quantitative measures of code quality and CSR performance were derived from secondary data sources with a multi-national and cross-industry focus to determine the general relationship between these variables, independent of country- or industry-specific factors. Specifically, two analyses were conducted. The first analysis was designed to test whether companies with high quality codes of conduct were more represented in top CSR ranking systems. The second analysis utilized a more extensive ethical ranking system, encompassing a wide range of ethical performance rather than solely top performers, and was designed to test the relationship between code quality and CSR performance across a full scale of ethical rankings.

Study methodology

Code quality – benchmarking codes of conduct

To estimate the quality of corporate codes of conduct, benchmarking analyses by the Ethisphere Institute were compiled from quarterly publications in *Ethisphere Magazine*. Publically available data from

TABLE I

Critical components used to benchmark corporate codes of conduct by the Ethisphere Institute and relative weight of each component used to calculate overall grades

Analysis component	Component description	Weight (%)
Public Availability	A Code should be made readily available to all stakeholders. What is the availability and ease of access to the Code?	5
Tone from the Top	Level at which the leadership of the organization is visibly committed to the values and topics covered in the Code	15
Readability and Tone	What is the style and tone of the language used in the document? Is it easy to read and reflective of its target audience?	20
Non-Retaliation and Reporting	Is there a stated and explicit non-retaliation commitment and dedicated resources available for making reports of code violation? If so, is it presented clearly?	10
Commitment and Values	Does the Code embed corporate values or mission language? Does it identify the ethical commitments held to its stakeholders (e.g., customers, vendors, communities)?	10
Risk Topics	Does the Code address all of the appropriate and key risk areas for the company's given industry?	20
Comprehension Aids	Does the Code prove any comprehension aids (Q&As, FAQs, checklists, examples, case studies) to help employees and other stakeholders understand key concepts?	5
Presentation and Style	How compelling (or difficult) is the Code to read? This depends on layout, fonts, pictures, taxonomy, and structure	15

2007 to 2008 were collected, totaling 392 international companies (eight company codes were analyzed twice, in which case the most recent scores were used for analyses) from 15 different industries (retail, consumer products, financial services, technology, oil and gas, medical equipment, insurance, lodging and casino, construction, advertising and marketing, telecommunication, media, healthcare, pharmaceutical and biotech, and aerospace and defense).

The benchmarking method grades the codes of conduct from major corporations based on performance in eight categories: 'Public Availability', 'Tone from the Top', 'Readability and Tone', 'Non-Retaliation and Reporting', 'Commitment and Values', 'Risk Topics', 'Comprehension Aids',

and 'Presentation and Style' (Table I). A specific rating for each category is determined by a panel of experts from the Ethisphere Council, a membership group of the Ethisphere Institute. An overall letter grade for each code is derived from these ratings as an aggregated score calculated from the relative weight of each category (Table I), following a standard letter grade scale (A = excellent, B = above average, C = average, D = below average, F = poor). Although a comprehensive analysis of a corporate code of conduct using Ethisphere Council methodology involves the examination of 43 code elements, the benchmarking methodology targets a critical subset of these code elements to allow for the rapid and standardized assessment of code quality among numerous corporations. The Ethisphere Institute and Council have

Code of Conduct Quality and CSR Performance

reviewed over 800 corporate codes of conduct and thus represent a leading source and authority on rating and analysis of business codes. Benchmarking of codes of conduct provides a useful proxy for code quality when assessing CSR issues like ethical performance and employee behavior.

CSR performance – top ranking companies

To estimate the CSR performance of companies with benchmarked codes of conduct, the presence of each company in ‘best of lists for sustainability (Dow Jones Sustainability Index), corporate citizenship (100 Best Corporate Citizens), ethical practices (World’s Most Ethical Companies), and consumer perception (World’s Most Respected Companies) were determined. These CSR lists highlight companies with exemplary practices or reputations regarding ethical performance and citizenship. The four ranking systems differ in methodological approach and scope, yet employ similar criteria for ranking companies (Table II) and thus give multiple perspectives of CSR performance. The Dow Jones Sustainability Index (DJSI) focuses on large (listed on Dow Jones Global Index) and public international companies and derives information from company questionnaires, policies, and reports. Research for the DJSI is conducted by SAM Research AG, a member of SAM Holdings Group AG, and reported as a press release. The 100 Best Corporate Citizens (BCC) list focuses on large (listed on Russell 1000 Index), public US companies and derives information from publically available data sources provided by companies (e.g., company financial disclosures, policy reports, sustainability and environment reports) or reported elsewhere (e.g., Environmental Protection Agency databases). Research for the BCC is conducted by IW Financial and published in *Corporate Responsibility Officer* magazine. The World’s Most Ethical Companies (WMEC) list focuses on large (greater than US\$50 million in sales or 100 employees) public and private international companies and derives information from company questionnaires. Research for the WMEC is conducted by the Ethisphere Institute and published in *Ethisphere Magazine*. The World’s Most Respected Companies (WMRC) list focuses on large, public, and private international companies and derives information from customer

questionnaires. Research for the WMRC is conducted by the Reputation Institute and available as a summary report from the company’s website.

CSR performance – full range of companies

To further examine CSR performance of companies with benchmarked codes of conduct, results from the 2008 Covalence Ethical Rankings were filtered to produce a dataset with companies that received both an Ethical Ranking and code of conduct benchmarking. This dataset broadened the analysis from a comparison of corporate codes of conduct among top ranking companies (as above) to a comparison of corporate codes across a full range ethical performance. Covalence Ethical Rankings provide an EthicalQuote for 541 multinational companies from 18 industries (automobiles and parts, banks, basic resources, chemicals, construction and materials, financial services, food and beverage, health care, industrial goods and services, insurance, media, oil and gas, personal and household goods, retail, technology, telecommunication, travel and leisure, and utilities) based on the ethical performance of each company as reported in public news and information sources. EthicalQuote is an information system, developed in 2001, that utilizes public information to gauge the ethical reputation of large companies. Sources are weighted equally and derived from search engines, individual websites, and correspondents that relay positive or negative news regarding to specific companies. Relevant information is coded as 1 or 2, depending on fit within 45 specified categories (see below), and assigned a positive or negative value. Information is deposited into the database to produce an overall, aggregated score for each company, and companies are ranked annually based on these scores. High positive values indicate exemplary ethical performance; low negative values indicate poor ethical performance.

Relevant information is defined by Covalence as content pertaining to one or two of the 45 categories of business contribution to human development, which are classified among four groups: ‘Working Conditions’ (labor standards, wages, social benefits, training and insertion, women and external working conditions), ‘Impact of Production’ (sales, link with official development aid, export risk guarantee,

TABLE II

Secondary data sources used in this study, highlighting similarities and differences in the scope, methodology, and criteria used to rank companies based on CSR performance

	Research	Publication	Scope	Methodology	Criteria
100 Best Corporate Citizens	KLD Analytics, ^a IW Financial ^b	CRO Magazine	United States, Public, Large ^c Companies	Publicly Available Data Sources ^b	Environment, Climate Change, Human Rights, Employee Relations, Governance, Philanthropy, Financial, Lobbying ^b
World's Most Ethical Companies	Ethisphere Institute	Ethisphere Magazine	International, Public/Private, Large ^d Companies	Company Questionnaire Ethics Quotient (EQ)	Corporate Citizenship, Corporate Governance, Innovation, Industry Leadership, Executive Leadership, Integrity Reputation, Internal Systems and Ethical/Compliance Program
World's Most Respect Companies	Reputation Institute	Reputation Institute – Report	International, Public/Private, Large Companies	Customer Questionnaire	Performance, Leadership, Products/Services, Innovation, Citizenship, Governance, Workplace
Dow Jones Sustainability Index	SAM Research	Dow Jones – Press Release	International, Public, Large ^e Companies	Company Questionnaire Policies and Reports	Corporate Governance, Risk/Crisis Mgmt, Codes of Conduct, Environmental Performance and Reporting, Human Capital Development, Talent Attraction & Retention, Labor Practices, Corporate Citizenship, Social Reporting, Industry Specific
Covalence Ethical Rankings	Covalence	Covalence Report	International, Public/Private, Large ^f Companies	Publicly Available Data Sources	45 Total classified into 4 groups: Working Conditions, Impact of Production, Impact of Product, and Institutional Impact

^a2007, ^b2008, ^cRussel 1000 Index, ^d>\$50 M sales or >100 employees, ^eDJ Global Index, ^fDJ Sector Titans.

international presence, joint ventures, economic impact, social impact, job stability, local employees, local executives, women employed, downsizing, infrastructures, local sourcing, stability of prices, technical assistance, intellectual property rights, local innovation, fiscal contributions and environmental impact), 'Impact of Product' (product human risk, product social utility, product relation to culture,

socially innovative product, product environmental risk, waste management, eco-innovative product, information to consumer, pricing/needs and cause related marketing), and 'Institutional Impact' (social sponsorship, anti-corruption policy, humanitarian policy, human rights policy, relations with United Nations, boycott policy, social stability, support to political actions and lobbying practices).

Data analysis – code quality and CSR performance

Data analyses were divided into two distinct sections. The first section compared code of conduct grades among all benchmarked companies ($n = 392$) and subsets of this population appearing on top ranking CSR lists. To compare average code of conduct letter grades, benchmark scores (reported by Ethisphere, as described above) were transformed to numerical values using the standard grade point average (GPA) scale, as follows: A = 4.00, A- = 3.67, B+ = 3.33, B = 3.00, B- = 2.67, C+ = 2.33, C = 2.00, C- = 1.67, D+ = 1.33, D = 1.00, D- = 0.67, and F = 0.00. Average code of conduct scores were compared across the entire population (all benchmarked companies) and among subsets of companies appearing on top ranking CSR lists using a one-way analysis of variance (ANOVA). In addition, the distribution of code of conduct grades (A's, B's, C's, D's, and F's) among subsets of companies on CSR lists were compared to the overall population using Chi-square analyses to determine if grade distribution of company subsets differed significantly from the population. Finally, average code of conduct grades were compared across companies appearing on 0, 1, 2, 3, or all 4 CSR lists, using a one-way ANOVA, to determine if code scores increased with higher representation on CSR lists.

The second section compared code of conduct grades with the Covalence EthicalQuote ranking system, broadening the analysis to include companies exhibiting a full range of CSR performance. Since the Covalence dataset was large, scoring over 500 companies, and over 25% of these companies ($n = 138$) had received a code of conduct grade, a more detailed analysis was possible. Ethical performance ranks were divided into quartiles (Q1 = ranks 1–135, Q2 = ranks 136–270, Q3 = ranks 271–405, Q4 = ranks 406–541) to categorize performance into groups (Q1 = top ethical performers, Q4 = low ethical performers). Average code grades were compared across quartiles using a one-way ANOVA to determine the effect of code quality on average ethical ranking. In addition, the distribution of code of conduct grades among the ethical quartiles was compared to an even distribution using Chi-square analyses to determine the likelihood of each code grade occurring within ethical quartiles. Statistical analyses were conducted in SigmaPlot (version 12.0).

All significant ANOVAs ($p < 0.05$) were followed by Bonferroni post hoc test to determine pairwise significance.

Research findings

Code of conduct quality among top CSR companies

The average code of conduct grade for all companies benchmarked between 2007 and 2008 was a C (2.20 ± 0.93 ; average \pm SD). The subsets of companies appearing on each of the CSR lists exhibited significantly higher average code of conduct grades ($p < 0.05$; Figure 2), indicating these companies had higher overall quality codes of conduct. Companies appearing on the DJSI and World's Best Corporation list averaged a B- (2.67 ± 0.84 and 2.67 ± 0.80 , respectively). Companies appearing on the 100 BCC and WMEC list averaged a B (2.85 ± 0.90 and 3.10 ± 0.82 , respectively). Analysis of the frequency of code of conduct grades among all companies benchmarked revealed the majority of companies scored a C (36%) or D (26%), with few scoring an A (10%; Figure 2). Within the subsets of companies appearing on each of the CSR lists, the majority scored an A (14–39%) or B (35–52%) for their codes of conduct, with only a small percentage of companies scoring below a C (4–14%; Figure 2). For each CSR list, the frequency of code grades among each subset differed significantly ($p < 0.05$) from the frequency of grades among all companies examined (Table III), indicating a significantly skewed distribution toward higher code of conduct marks. Together, these results indicate higher quality codes of conduct among companies achieving recognition for CSR performance.

A high quality code of conduct was not required to score high in ethical performance, as 11 companies scored low (D-level) yet appeared on top CSR company lists; however, these companies represent the exception rather than the norm. Notably, all of these companies appeared exclusively on one list. While the criteria used to rank companies and final selection of companies are subject to debate for any ranking system, consistent appearances by companies across multiple lists may prove a more solid indication of top CSR performance. In fact, average code of conduct grades increased in subsets of companies

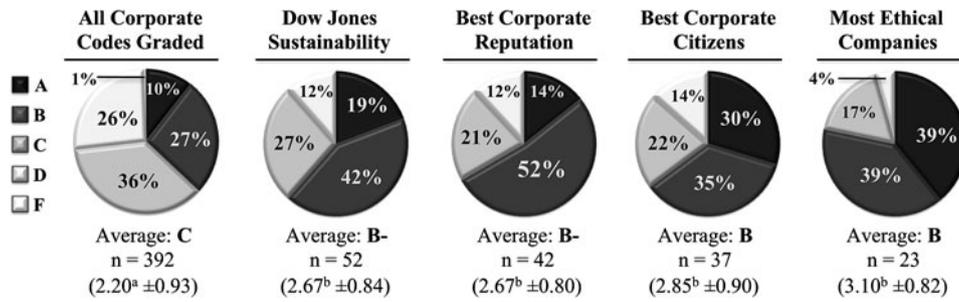


Figure 2. Average code of conduct letter grades, GPAs (mean ± 1 SD), grade frequencies (pie charts), and sample sizes (*n*) of companies appearing on the Dow Jones Sustainability Index, the World’s Most Respected Companies, the 100 Best Corporate Citizens, and the World’s Most Ethical Companies lists compared to the population of all companies reviewed for code quality. Companies listed in top CSR ranking systems exhibited significantly higher quality codes on average compared to the population of all companies. In addition, companies within each list exhibited a significantly different distribution of code grades, with the majority (61–78%) maintaining A- or B-level codes, compared to the overall population, where the majority (62%) maintained C- or D-level codes. Different *superscript letters* denote significant pairwise differences among means.

TABLE III

Chi-square statistical analyses of the grade distribution of companies listed on top CSR ranking systems (observed) compared to the grade distribution of all ranked companies (expected)

Quartile	Dow Jones Sustainability Index		World’s Most Respected Companies		100 Best Corporate Citizens		World’s Most Ethical Companies	
	Observed	Expected	Observed	Expected	Observed	Expected	Observed	Expected
A	10	5.4	6	4.4	11	3.9	9	2.4
B	22	13.8	22	11.1	13	9.8	9	6.1
C	14	18.8	9	15.2	8	13.4	4	8.3
D	6	13.7	5	11.0	5	9.7	1	6.0
F	0	0.3	0	0.2	0	0.2	0	0.1
Total	52	52	42	42	37	37	23	23
χ^2 statistic	170.30		195.55		112.50		96.10	
<i>p</i> -value	<0.01		<0.005		<0.001		<0.001	

Companies appearing on each CSR list exhibited a significantly ($p < 0.05$) different distribution compared to all ranked companies, indicating companies with higher quality codes were more likely to receive recognition for CSR performance

appearing on multiple lists (Figure 3). Companies not appearing on any list averaged a C (2.03 ± 0.89), significantly lower than companies appearing on one or more CSR lists ($p < 0.05$; Figure 3). Though not statistically significant, increasing number of list appearances was correlated with higher average code of conduct scores. Analysis of the frequency of code of conduct grades among companies not appearing on any list revealed that the majority of companies scored a C (41%) or D (31%), with few scoring an A (7%; Figure 3). Within the subsets of companies

appearing one or two CSR lists, the majority of companies scored an A (12–14%) or B (44–48%) for their codes of conduct, with only a small percentage of companies scoring below a C (8–19%; Figure 3). Few companies appeared on 3 ($n = 9$) or 4 ($n = 2$) lists, thereby limiting statistical inference; however, eight of the nine companies appearing on three lists scored an A or B and both companies appearing on all four CSR lists scored in the A-range (Figure 3). These data indicate that appearances on multiple top CSR company lists are correlated with better codes

Code of Conduct Quality and CSR Performance

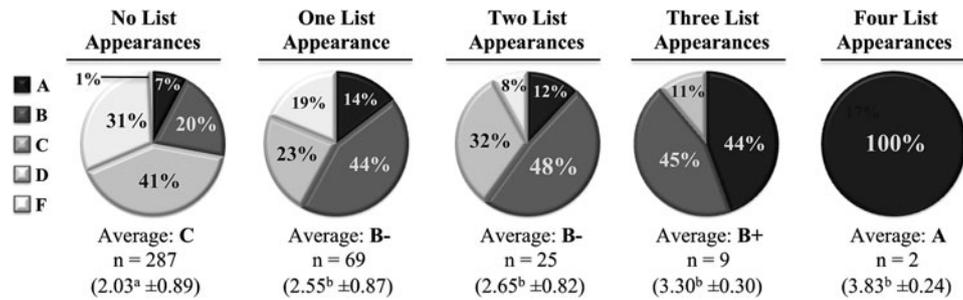


Figure 3. Average code of conduct letter grades, GPAs (mean ± 1 SD), grade frequencies (pie charts), and sample sizes (*n*) of companies appearing on 0, 1, 2, 3, or all 4 top CSR companies lists, highlighting the increase in code quality among companies listed in multiple ranking systems. Companies listed on one or more top CSR ranking systems exhibited significantly higher quality codes on average compared to unlisted companies. In addition, companies appearing on one or more lists exhibited a significantly different distribution of code grades, with the majority (58–100%) maintaining A- or B-level codes, compared to unlisted companies, where the majority (72%) maintained C- or D-level codes. Different superscript letters denote significant pairwise differences among means.

of conduct and may be better indicators of CSR performance by diluting the potential biases of a single ranking system.

Code of conduct quality and ethical performance

A more detailed analysis was conducted using the Covalence EthicalQuote ranking system, a dataset that goes beyond listing top companies and ranks over 500 companies spanning a range of ethical practices. A consistent trend was observed between code quality and ethical performance, with higher marks for code quality resulting in higher average ranking on the ethical charts (Figure 4). Companies with A-level codes of conduct ranked significantly higher than those with D-level codes ($p < 0.05$), again indicating higher ethical performance among companies with comprehensive and high quality codes of conduct.

Dividing the ethical rankings into quartiles revealed that companies with high code of conduct grades (A- and B-level) were more likely to rank in the top quartile and less likely to rank in the bottom quartile, while companies with low code grades (C- and D-level) were equally represented throughout all quartiles. Companies with A-level codes of conduct were significantly more likely to rank in higher ethical performance bins, with half (50%) ranked in the top quartile of ethical performance and only 8% ranked in the bottom quartile (Table IV; Figure 5). Similarly, companies with B-level codes

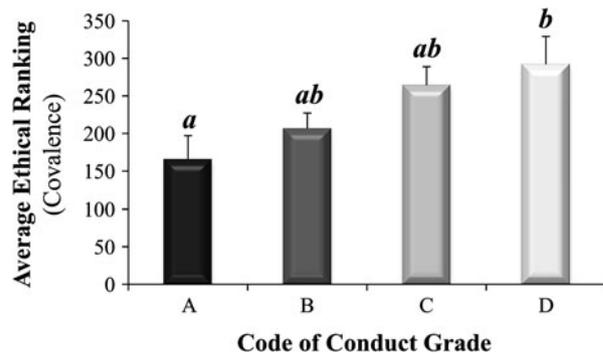


Figure 4. Average ethical ranking (Covalence Ethical Quotient) of companies grouped by code of conduct grade. Companies with higher quality codes exhibited a higher ethical rank on average. Different letters above columns denote significant differences among averages. Error bars ± 1 SE.

of conduct were also significantly more likely to rank in higher ethical performance bins, with 41% ranked in the top quartile of ethical performance and 13% ranked in the bottom quartile (Table IV; Figure 5). In contrast, companies with C-level and D-level codes of conduct were equally likely to fall into each quartile of ethical performance, with the frequency of appearances in each quartile not significantly different from an even distribution (Table IV). These results suggest an interesting relationship between code of conduct quality and ethical performance, in that high quality codes are indicative of higher ethical performance, yet lower

TABLE IV

Chi-square statistical analyses of the distribution of companies among ethical quartiles (Covalence Ethical Quotient) by code of conduct grade (observed) compared to an equal distribution of companies across the ethical quartiles (expected)

Code grade:	A		B		C		D	
	Observed	Expected	Observed	Expected	Observed	Expected	Observed	Expected
Q1	12	6	22	13.25	11	9.75	6	5.5
Q2	6	6	12	13.25	10	9.75	4	5.5
Q3	4	6	12	13.25	10	9.75	5	5.5
Q4	2	6	7	13.25	8	9.75	7	5.5
Total	24	24	53	53	39	39	22	22
χ^2 statistic	56.00		118.75		4.75		5.00	
p -value	<0.05		<0.05		0.92		0.82	

Companies with A- or B-level codes were significantly ($p < 0.05$) more likely to rank higher on the ethical performance scale. Companies with C- or D-level codes were equally distributed across the ethical performance quartiles.

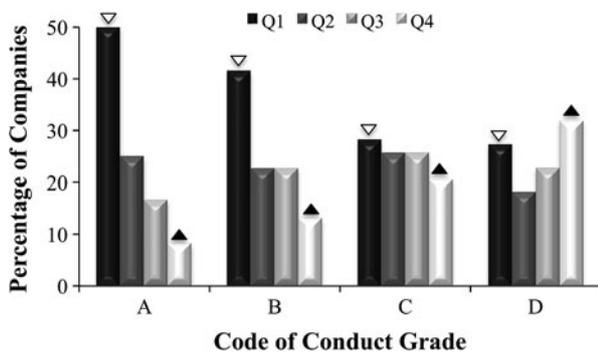


Figure 5. Relationship between code of conduct grade and ethical performance score (Covalence Ethical Quotient), with companies divided into quartiles (Q1 = top quartile, Q4 = bottom quartile). *Triangles* above bars highlight the decrease in top quartile companies (*open, inverted*) and increase in bottom quartile companies (*solid, upright*) in lower code grade categories. Companies with A- and B-level grades were significantly more likely to rank higher in ethical performance. Companies with C- and D-level grades were equally likely to rank in each ethical quartile across the scale.

quality codes do not necessitate lower ethical performance.

Discussion

This study revealed a general relationship between the quality of codes of conduct and their effective-

ness on CSR performance at meso- and macro-scales, wherein higher quality codes were maintained by companies appearing on top CSR lists for corporate conduct, ethical performance, public perception, and sustainability. The observed relationship between code quality and CSR performance provides empirical insight into the theoretical framework of code effectiveness, revealing evidence for the hypothesized link between the comprehensiveness of the code formulation process and downstream effects on employee behavior and corporate culture (Figure 1). The link between code quality and CSR performance is intuitive – companies that devote specific human and capital resources to developing comprehensive codes of conduct that are consistent with corporate values have a more significant impact on ethical behavior within the organization. Considerable literature exists on theoretical grounds that define ancillary variables surrounding codes that enhance their effectiveness (e.g., Weller, 1988); however, empirical studies typically do not account for such variables, instead comparing companies with codes to those without (e.g., Somers, 2001). The results presented herein suggest that variability in code quality can yield different levels of code effectiveness and indicate that the mixed results reported in CSR literature on code effectiveness may be accounted for by significant variability within the codes adopted by individual businesses.

This study also revealed that low quality codes of conduct do not necessitate poor CSR performance. While companies with lower quality codes exhibited lower ethical rankings on average than those with higher quality codes, they were equally likely to rank throughout a full range of ethical performance. These findings may suggest that: (1) codes of conduct have positive impacts despite their content, and/or (2) codes of conduct are not a prerequisite for ethical conduct within organizations. Evidence for the first hypothesis has been reported and suggests that the sole act of establishing a formal code of conduct, regardless of content, is sufficient to impact perceptions of ethical behavior within organizations (Adams et al., 2001). However, these positive impacts will likely be short-lived after the initial organizational enthusiasm diminishes (Wesley, 1988), especially if unethical behavior continues without sanction (Lacznia and Inderrieden, 1987). Evidence for the second hypothesis is apparent, since ethical organizations existed prior to the establishment of formal codes of conduct. While codes of conduct may represent as a key CSR instrument to transform corporate culture, their utility may be redundant in companies where CSR is already embedded into the organizational culture, resulting in the observed companies with poorly developed codes despite high CSR performance.

Following these results, the research agenda of future studies should (1) account for code quality when studying code effectiveness, (2) focus on understanding the factors that drive the observed trend between higher code quality and higher CSR performance, and (3) determine the causality of the relationship between code quality and ethical performance. Within the adaptation of Kaptein and Schwartz's (2008) integrated research model presented herein, future research is particularly needed to understand the crucial intermediary steps between code formulation and CSR performance, notably code implementation and micro-effectiveness (Figure 1). Code implementation issues include code communication (Stevens, 2008; Weaver et al., 1999), employee comprehension (Sims, 1991), upper management compliance (Stevens, 2008), and appropriate sanctions for code violations (Lacznia and Inderrieden, 1987). Implementation of codes is a long-term process (Treviño et al., 1999) and also

encompasses periodic revision of codes as the organization, its industry, and society in general continue to evolve and change (Murphy, 1988; Nijhof et al., 2003). Indeed, code implementation is likely a key issue in determining the code effectiveness, as even the most well-crafted codes will have little impact if they are not communicated effectively and accepted within the organizational culture (Allen and Davis, 1993; Stevens, 2008). Following implementation, micro-effectiveness is the first measure of code effectiveness and the precursor to overall corporate ethical behavior. Determining how codes of conduct impact employees is essential to understanding the specific mechanisms that allow codes to become effective tools for guiding behavior. Further, future investigations are required to determine the causality of the relationship between code quality and ethical performance – i.e., whether high quality codes result in enhanced CSR performance or high CSR companies produce high quality codes. In particular, longitudinal studies that examine companies' ethical behaviors before and after the establishment of a code of conduct are recommended (Kaptein and Schwartz, 2008). While these issues were beyond the scope of this study, they represent important avenues for future empirical analyses that will help elucidate the mechanistic underpinnings and causality of the relationship between code quality and CSR performance recovered herein.

The practical implication of these findings to businesses is clear: high quality codes of conduct are more effective in guiding employee behavior and establishing a more socially responsible organizational culture. Therefore, managers seeking to utilize codes of conduct to have a positive impact on the CSR performance of their organization should develop new codes or revise existing codes to meet critical standards. For companies with a code already in place, yet having little apparent effect, a simple and systematic review can be conducted using the critical components used to benchmark codes of conduct (Table I). In addition, most companies make their codes of conduct available to the public, thus a comparative analysis of your code with the codes of top CSR performing firms can be another useful tool when conducting a code audit. Further, the finding that a high quality code of conduct is

not a prerequisite for CSR performance should not deter managers from establishing and maintaining relevant and thorough codes of conduct. Indeed, this result implies that high quality codes may be redundant only in corporate cultures currently meeting their ethical goals. However, codes of conduct still represent a powerful tool for companies aiming to transform their organizational culture and enhance their ethical performance. In this capacity, high quality codes of conduct have an important function and represent a simple means to guide employee behavior and transition to an ethical workplace.

Limitations of this study include the potential biases of selected CSR lists. Any list of top CSR companies is potentially subject to the biases of ranking committees and the criteria employed to rank corporations. Notably, the consistent trends across all four ranking systems in this study add to the power of the findings. In addition, companies appearing on multiple lists exhibited higher quality codes of content, although few companies were found on three or more lists. The inclusion of additional top CSR lists will provide for stronger inferences, as more rating systems are established and become publicly available. A recent report enumerated 183 public lists from 38 countries that rate and rank corporations based on CSR dimensions, primarily reputation and workplace conditions (Fombrun, 2007). Further studies targeting the consistency among these lists are necessary to uncover specific biases of individual lists and recover repeatedly top performing companies. Finally, the data and measurements used to benchmark codes of conduct may also be subject to biases, thus as more reports of code of conduct quality surface, attempts to compare multiple code rankings will aid in determining the accuracy of individual benchmarking procedures.

In summary, results from this study suggest three general conclusions: (1) variability within code quality may impact code effectiveness, thus potentially skewing studies that compare companies based on code presence or absence, (2) high quality codes are correlated with high CSR performance, although causality of this relationship is uncertain, and (3) low quality codes do not necessitate low CSR performance. Most urgently, future research should transcend traditional comparisons based on the presence or absence of ethical codes and account

for variability in code quality before comparing code effectiveness, as poor quality codes may skew results and lead to false conclusion regarding code effectiveness. Further, these findings suggest that code quality may play a crucial role in the effectiveness of codes of conduct, serving as a practical tool for the successful establishment of CSR policies and sustainable business practices in corporate culture.

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Code of Conduct Quality and CSR Performance

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