Instilling Ethical Behavior in Organizations: A Survey of Canadian Companies

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ABSTRACT. An organization's management control system can play an important role in influencing ethical behavior among employees. In this paper a theoretical framework of control is developed by linking various ethics related control mechanisms reported in the literature to the primary components of a management control system. In addition, the findings of a survey of the *Financial Post's* Top 1 000 Canadian industrial and service companies are reported. The survey investigated organizations' use of ethical codes of conduct, whistleblowing systems, ethics committees, judiciary boards, employee training in ethics, and ethics focused corporate governance and reward systems. The findings indicate that ethics related control mechanisms, particularly codes of conduct, are being used by a good number of organizations. However, closer analysis of the data suggests that many companies may only be paying lip service to the importance of promoting ethical behavior.

With the growing realization that North America is experiencing an ethical crisis in business, public interest in ethics is at an all time high (Grier, 1991). Almost every day one can pick up a newspaper or watch television and be presented with yet another calamity caused, at least in part, by unethical behavior, with consequences reaching far beyond company walls. The *Wall Street Journal* and the *Financial Post* print over 200 such stories each month (Beauchamp and Bowie, 1988). Specific examples in Canada are the Hagersville tire fire, the disputed takeover of Dome Petroleum, the fall of Campeau, demonstrations opposing clear-cut logging, the feud in Canadian Tire, and the collapse of Principal Trust. In all likelihood, such publicized incidents represent only a fraction of the cases that go untold.

Yet, one can also observe that many executives are going to some length to counter this negative image of business by publicizing examples of their companies' ethical behavior in the press, financial reports, and in their public speeches. Indeed, there is a growing recognition among business leaders that "good ethics is good business" (Kelly, 1989). For examples, the CEO of DuPont voluntarily stopped production of chlorofluorocarbons – a $750 million a year business for the company – when he learned that they just *may* be harmful to the Earth's ozone layer (Kirkpatrick, 1990).

With such examples of both ethical and unethical corporate behavior, it becomes of interest to know why some organizations behave ethically while others do not. Jackall (1988) argues that unethical actions of managers do not result from individual moral deficiencies alone, but are encouraged by the bureaucratic structure of modern corporations. Individuals in such organizations often have to compromise their personal ethics in order to advance (cf. Grosman, 1988; Shultz, 1989). Indeed, Frederick, based on data from 10 studies, concluded that "even the most upright people are apt to become dishonest . . . when placed in a typical corporate environment" (as cited in Shultz, 1989, p. 57).

The perspective adopted in this study is that an organization's management control system can

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play an important role in directing and influencing employees to pursue ethical behavior (see Murphy, 1988). Specifically, by reconstructing procedures, processes and systems to foster an ethical dimension, employees are provided with an overall context of corporate values within which to pursue profits. To this end, the paper develops a theoretical framework of control for instilling ethical behavior by linking various ethics related control mechanisms identified in the literature to the primary components of management control systems. In addition, the results of a survey investigating the control mechanisms that Canadian companies are using to formally instill ethical behavior in employee decision making are reported. This survey represents a replication and extension of the Center for Business Ethics's (1986) survey of *Fortune*'s 1000 industrial and service corporations in the United States and, to a lesser extent, Sweeney and Siers' (1990) survey of controllers employed in *Fortune* 500 U.S. companies which examined ethical codes of conduct.

Management control systems and ethical behavior

A firm's management control system (MCS) is designed to motivate employees to perform activities that will further the organization's goals (Merchant, 1985). A MCS consists of three components (Otley and Berry, 1980; Emmanuel *et al.*, 1990):

(1) specifying and communicating objectives;
(2) monitoring performance through measurement (feedback/control); and
(3) motivating employees to accomplish objectives by linking the reward system to objective achievement.

All three components are necessary. The setting and communicating of objectives – statements of purpose or desired achievements – is essential because without aim or purpose control has no meaning (Otley and Berry, 1980). The second component provides feedback on the performance of those being measured, allowing management to monitor the implementation of plans designed to achieve the firm's objectives and to take corrective action as needed (Euske, 1984; Anthony, 1988). The final component serves to motivate and encourage employees to perform in a goal congruent manner (Merchant, 1985; Anthony, 1988). A key point is that the absence of any one of these components seriously impairs the effectiveness of the others.

With respect to controlling for ethical behavior, seven specific mechanisms have been identified in the literature:

Code of ethics: A document that provides employees in an organization with the company's ethical policies and a common foundation for administering these policies (Center for Business Ethics [CBE], 1986; Sweeney and Siers, 1990);

Whistleblowing system: Formal processes and means which enable employees to report unethical activities to parties who may be able to take action (Greenberger *et al.*, 1987; Neilsen, 1987);

Ethics focused reward system: A formal reward system which directly promotes, measures, and rewards the ethical behavior of employees (Wilson, 1983; Velasquez, 1990);

Ethics committee: A formally specified group of employees responsible for developing, updating, and enforcing the code of ethics (CBE, 1986; Murphy, 1988);

Judiciary board: An independent group which acts as the enforcement mechanism for discovering or reacting to ethical problems (Aram, 1986; Murphy, 1988; Neilsen, 1989; Shultz, 1989);

Employee training in ethics: A formal program of seminars, guest speakers, workshops, and training programs developed for the purpose of exposing and educating employees in ethics and ethics related issues (CBE, 1986; Murphy, 1988); and

Ethics focused corporate governance: A decision making process which includes representatives from as many constituencies of the organization as possible (e.g. labor, civic, environmental, and consumer groups) in order to allow corporate leadership to fully assess, consider, and balance the various competing interests of the organization and its constituents (Aram, 1986; CBE, 1986);

Figure 1 lists these mechanisms and links them to one of the three components of a management control system. While each mechanism (except the ethics committee) has been categorized within only one of the three MCS components

Components of a MCS	Ethics related control mechanisms
• Specifying and communicating objectives	• Code of ethics • Employee training in ethics • Ethics focused corporate governance • Ethics committee
• Monitoring performance (feedback/control)	• Whistleblowing channels • Judiciary board • Ethics committee
• Motivation by linking rewards to performance	• Ethics focused reward system

Fig. 1. Ethics related control mechanisms linked to management control system components.

based on its primary role, it should be recognized that the boundaries are fuzzy and some overlap exists for some mechanisms.

To elaborate on Figure 1, a code of ethics is used to specify objectives, while meetings and training sessions are used to communicate and explain these objectives to organizational members. An organization's ethics committee can play a major role in establishing the code. Also, ethics focused corporate governance can be used to define objectives by involving various constituents in decision making. However, following from control theory, the specification of objectives alone will not necessarily motivate employees to undertake goal congruent behavior. Controlling for ethical behavior also requires that performance be monitored or measured with respect to the ethical objectives. Whistleblowing channels are a form of monitoring because they provide a source of feedback on company activities. Feedback is also provided from the monitoring of ethical behavior undertaken by a firm's judiciary board or ethics committee. Finally, reward systems belong in the final phase of the control process in that what gets measured and rewarded gets done.

Research design

The researchers significantly modified the instrument developed by the Center for Business Ethics (1986). The original instrument was considered to be too long and repetitive. While including all seven mechanisms, the questionnaire focused on codes of ethics, whistleblowing channels, and ethics focused reward systems in order to achieve a reasonably acceptable length and to encompass each MCS component. Previous research indicates that the use of the other four mechanisms is minimal. The instrument was pre-tested by controllers of 10 firms and this resulted in several changes being made to improve the clarity of the questionnaire.

Controllers were selected to respond to the questionnaire. Controllers play a key role in designing and implementing a MCS, as well as providing the feedback information that helps make the system work (Pipkin, 1989). In addition, controllers are often responsible for helping to enforce company policies and are entrusted with special fiduciary responsibility when it comes to business ethics (Schlank, 1985a). As Schlank (1985b, p. 6) put it: controllers are the "keepers of the corporate conscience." Thus there is good reason to consider controllers as knowledgeable when seeking information on the use of ethics related control mechanisms.

Three hundred questionnaire packages were sent to controllers employed by companies in Canada. The companies were selected using a stratified, random sample from a population of non-Quebec registered companies identified in the *Financial Post*'s Top 1 000 industrial and service corporations list.[1] A stratified sample was used to ensure that the sample mirrored the population with respect to size (as measured by sales).

The data collection procedure began with a telephone call to the controllers in the sample in order to obtain their names so that a personalized letter could be used, as well as to ask for their participation. Only six of the 300 controllers stated outright that they would not participate. A package containing the questionnaire, instructions, a postage-paid return envelope and a postcard was then mailed to the sample of controllers. The instructions indicated that the postcard was to be returned to the researchers separately from the questionnaire. This allowed the researchers to identify non-respondents, while guaranteeing the anonymity of respondents. Three weeks after the initial mailing, a follow-up letter was sent to non-respondents reminding them of the questionnaire and the importance of their responses.

Of the 300 questionnaires distributed, 171 were returned by the cut-off date, providing an overall response rate of 57 percent. Confidence intervals were calculated to test the representativeness of respondents with respect to the population on four key variables: size (as measured by sales), controlling interest of the company (foreign parent, Canadian parent, government), nature of ownership if no controlling interest (publicly owned, publicly owned with significant government interest, privately owned, and cooperative), and industry. These tests indicated that the respondent companies were generally representative of the population in terms of size and industry. However, two out of the seven comparisons produced statistically significant differences with respect to the controlling interest (government) and nature of ownership (publicly owned) strata. The respondent companies were distributed in approximately equal proportions among the following four sales categories: (1) smaller than $104 million (41 firms); (2) $104 to $227 million (48 firms); (3) $228 to $589 million (41 firms); and (4) $590 million or more (41 firms).

Results

The results of the survey are reported in two parts. The first provides a general overview of the organizational practices being used to instil ethical behavior in employees. Summary frequency statistics are reported for the seven mechanisms of interest. The second part of the analysis examines responses to the more detailed questions relating to the three primary mechanisms under investigation (code of ethics, whistleblowing, and ethics focused reward system). Differences in proportions among the various subpopulations were examined using t-tests and are reported for statistically significant comparisons.[2] No significant differences were found in the second part of the analysis.

An overview of companies' practices with respect to instilling ethical behavior

(i) *Are ethical concepts included in corporate mission statements?*

Of the 164 respondents who answered this question, 72 (43.9%) indicated that ethical concepts and philosophies are included, 80 (48.7%) said that they are not, and 12 (7.3%) did not know.

In examining the results by organizational size, 62 percent of the large firms (i.e. sales greater than $590 million, representing the top one-quarter of the sample) included ethical concepts in their mission statements as compared to only 28 percent for small companies (i.e. sales smaller than $104 million, representing the bottom one-quarter of the sample) [$p < 0.005$]. This result suggests that large organizations are reacting – at least superficially – more quickly than small companies in responding to the need and the increasing public demand for greater social responsibility (CBE, 1986; Sweeney and Siers, 1990).

The data was also categorized by the nature of the controlling interest of the firm. Nearly 64 percent of the foreign controlled companies indicated that their mission statement included ethical issues as compared to only 45 percent for

Canadian controlled companies ($p < 0.11$). No further statistical differences were detected when investigating the remaining strata.

(ii) *Are companies taking steps to instil ethical behavior?*

The results of a question asking controllers whether their company was taking any steps to instill ethical behavior are presented in Table I. Of the 171 responding companies, 84 (49%) indicated that they use or were in the process of implementing at least one of the seven ethics related control mechanisms under investigation in this study. Thirty-three organizations use only one mechanism, 30 use two, 11 use three, four companies use four, four use five, and two companies use six control mechanisms. No company uses all seven mechanisms.

Eight-seven respondents (51%) indicated that they did not use any of the seven mechanisms. Of these, 42 state their company has taken some other explicit action to instil ethical behavior. Five main categories of actions were reported.[3] One consisted of firing individuals who act unethically or using written or verbal warnings with respect to borderline cases (five firms). Second, ten respondents stated that the strength of their organizations' corporate culture is a viable mechanism for instilling ethical behavior. Third, six companies use internal and external audits to detect illegal behavior. Fourth, 19 respondents indicated that an informal code of ethics is present in their organizations. Finally, eight controllers indicated that their company's concern for the environment is instilled through the use of board and special meetings.

Further analysis indicated that 70.7 percent of the large companies employ at least one of the seven mechanisms as compared to only 29.3 percent for small companies ($p < 0.001$). Companies in which the controlling interest is held by a foreign parent (47 firms) utilize one or more of the seven mechanisms more often than those in which the controlling interest is held by a Canadian parent (33 firms) [93.6% and 54.5% respectively; $p < 0.001$]. Seven of the eight companies whose controlling interest is held by the government (i.e., local, provincial, or federal) reported that they use one or more of the seven mechanisms.

In summary, approximately 74 percent (126 of 171) of the companies were taking some specific action to instil ethical behavior in employee decision making. This finding is reasonably comparable to the Center for Business Ethics's (1986) result of 80 percent.[4]

TABLE I

Are companies taking any actions to instil ethical behavior?

	Number of companies	% of responses
Companies using, or in the process of implementing, any of the seven ethics control mechanisms	84	49.1%
Companies which do not use any of the seven mechanisms but which are taking other explicit actions to instil ethical behavior	42	24.6%
Total number of companies taking some specific action	126	73.7%
Companies which were taking no actions to instil ethical behavior	26	15.2%
Companies for which respondents did not know whether or not specific actions were being taken	19	11.1%
Total number of companies taking no action or in which any action being taken was not known by respondents	45	26.3%
Total number of respondents	171	100.0%

(iii) *To what extent are the seven mechanisms used?* The results reported below are based on answers from the 84 respondents who reported that their company uses or is in the process of implementing at least one of the seven mechanisms. Table II reports the number of companies who are using, implementing, and not using each mechanism.

Seventy-four (88%) of the 84 companies use a code of ethics. This percentage increases to 93 percent when the four firms in the process of implementing a code are included. Forty-three percent of the firms employ and an additional 3.6 percent are in the process of implementing some form of whistleblowing system. The third most popular mechanism was employee training in ethics, with 26 percent of the respondents indicating that it is used and 4 percent are in the process of implementation. Each of the remaining four mechanisms (ethics focused reward system, ethics committee, judiciary board, and ethics focused corporate governance) are used in less than 17 percent of the firms.

The studies by the Center for Business Ethics (1986) and Sweeney and Siers (1990) surveying U.S. companies found that codes of ethics are more prevalent in larger organizations. An analysis was performed to determine if companies in Canada follow a similar pattern. The results indicate that they do. The 20 largest companies (sales over $1.3 billion) all use a code of ethics, as compared to only 67 percent for the 19 smallest companies (sales under $68 million) [$p < 0.02$]. No further statistically significant differences were detected for the remaining subpopulation strata.

(iv) *Who plays an important role in the design and implementation of ethics related control mechanisms?*

Table III lists the percentages for the position/function of the person considered by respondents to play an important role in designing and/or implementing a particular ethics related control mechanism. To use the code of ethics as an example, senior or executive officers were reported to be important in 66 companies (73.3%), middle managers in 12 companies (13.3%), the controller's department in 9 firms (10%), and an outside person in 3 companies (3.4%). As Table III indicates, senior or executive officers dominate in four of the seven mechanisms. Middle management, in conjunction with senior management, play an important role for designing and implementing employee training in ethics. Finally, department personnel, in conjunction with senior management, play an important role in the implementation of judiciary boards. By and large, few firms are seeking outside assistance in designing and implementing the various mechanisms.

The findings with respect to the importance

TABLE II
The extent to which the mechanisms are used*

Ethics related control mechanisms	Have mechanism		Implementing mechanism		Do not have mechanism	
	n =	%	*n* =	%	*n* =	%
Code of ethics	74	88.1	4	5	6	6.9
Whistleblowing channels	36	42.9	3	3.6	45	53.5
Ethics focused reward system	10	11.9	0	0	74	88.1
Ethics committee	12	14.3	0	0	72	85.7
Judiciary board	4	4.8	0	0	80	95.2
Employee training in ethics	22	26.2	3	3.6	59	70.2
Ethics focused corporate governance	13	15.5	1	1.2	70	83.3

* For those companies indicating that they use or are implementing one or more of the seven mechanisms (n = 84).

TABLE III
Position of person playing an important role in the design and/or implementation of control mechanisms

Control mechanism	(*n* =)	A %	B %	C %	D %	E %	F %	G %
Code of ethics	90*	73.3	13.3	10	0	0	3.4	0
Whistleblowing channels	39	59	17.9	17.9	2.6	0	2.6	0
Ethics focused reward systems	1	0	100	0	0	0	0	0
Ethics committee	12	58.3	33.3	0	0	0	8.4	0
Judiciary board	9	44.4	11.1	0	44.4	0	0	0
Employee training in ethics	24	37.5	41.7	8.3	12.5	0	0	0
Corporate governance	10	60	10	10	10	0	0	10

* The total *n* for each mechanism may exceed the totals reported in Table II because more than one function was selected by some respondents.
A Senior or executive officers
B Middle managers
C Controller
D Department personnel
E Hourly employees
F Persons from outside the organization
G Other

of senior management in implementing mechanisms was not unanticipated. Their commitment is critical if ethical considerations are to be incorporated in decision making (National Institute of Business Management, 1987; Murphy, 1988). Nonetheless, it should be noted that everyone needs to be included in the implementation effort; it is not just a management concern (National Institute of Business Management, 1987). For example, employee involvement and approval is vital during the development of a code of ethics because it is during this phase that all viewpoints must be recognized and where commitment to the resulting code originates (Brooks, 1989).

Detailed analysis

1. *Code of ethics*

The questionnaire solicited a variety of information regarding the use of ethical codes of conduct by asking respondents to answer a series of questions. Summary results to these questions are presented in Table IV. The total number of responses for each question are not always the same because one of the respondents chose not to answer two of the questions.

Fifty-two (68%) of the 76 respondents indicated that every employee in the organization receives a written copy of the code. These results are similar to those of Sweeney and Siers (1990) where 57 percent of the respondents indicated that all employees received a copy of the code. Further information was obtained from the 24 respondents replying negatively to the question. In these companies, 100 percent of senior management and 92 percent of middle management were provided with a copy. Employees in staff positions were given a copy in 75 percent of the companies. These results are also similar to those obtained by Sweeney and Siers (1990), where senior and middle management and staff personnel were given a copy of the code in 100, 99 and 75 percent of the companies respectively.

The second question asked whether the company had a formal program to educate employees regarding the nature, provisions, and requirements of the code. Forty-one percent replied that they did. This result was similar to Sweeney and Siers' (1990) finding of 43 percent. The most frequently used programs are (1) special

TABLE IV
Company practices regarding codes of ethics

Question	Yes		No		Do not know		Total	
	n =	%	*n* =	%	*n* =	%	*n* =	%
Does every employee in the company receive the code?	52	68.4	24	31.6	0	0	76	100
Does your company have a formal program to educate employees regarding the nature, provisions, and requirements of the code?	31	41.3	43	57.3	1	1.4	75	100
Do you believe there is a general understanding of the code among all employees?	51	67.1	13	17.1	12	15.8	76	100
Does every employee have an obligation under the code to report actual/ potential conflicts with the code?	59	77.6	14	18.4	3	4	76	100
Does every employee have an obligation under the code to report actual/ potential conflicts of peers, superiors, or subordinates?	43	56.6	29	38.2	4	5.2	76	100
Is a mechanism in place for the on-going review and/or revision of the code?	37	49.3	24	32	14	18.7	75	100
Does the code specify disciplinary measures for failure to comply with it?	39	51.3	34	44.7	3	4	76	100

indoctrination seminars, conferences, and workshops for new employees (12 out of 31 firms); (2) publications issued occasionally (11 out of 31 firms); and (3) seminars, conferences and workshops for middle and/or senior management personnel (7 out of 31 firms).

The third question examined whether there was a general understanding of the code among all employees. Of the 76 respondents, 67 percent replied that there was, 17 percent indicated that such an understanding did not exist, and 16 percent stated that they did not know.

The fourth question asked respondents whether every employee had an obligation under the code to report actual or potential personal conflicts with the code. Seventy-eight percent of the 76 controllers reported that every employee had such an obligation. A related question was also asked regarding employees' obligation for reporting actual or potential conflicts of their peers, superiors, or subordinates with provisions of the code. Fifty-seven percent reported that such a requirement existed.

Effective codes need to be revised periodically in order to reflect current ethical problems brought about by changes in societal expectations, as well as industry and organizational practices (Murphy, 1988). The fifth question therefore examined whether there was an ongoing review and revision of the code. Forty-nine percent of the 75 respondents stated that there was a mechanism in place for the on-going review and/or revision of the code. Thirty-two percent reported that no such mechanism existed, while 19 percent indicated that they did not know.

The final question reported in Table IV examined whether the code specified disciplinary measures for failures to comply with its provisions. This was the case in 51 percent of the companies.

In addition, information regarding how companies determine whether employees are complying with the provisions of the code was obtained. Sixty-two (82%) of the 76 respondents indicated that their company monitored compliance with the code in some way. Of these, 40 (64%) use a periodic sign-off procedure, whereby employees are requested to sign to the effect that they are in compliance with the code. Eleven companies (18%) include compliance with the code in performance evaluations. Finally, 11 respondents (18%) chose the "other" category; however, they did not provide any information regarding the specific procedures used.

2. *Whistleblowing Systems*

As the environments in which corporations operate become increasingly complex and risk bearing, and in an era of rapidly changing regulatory standards, determining what constitutes ethical behavior becomes increasingly difficult. This places a premium on instituting processes for encouraging frank discussion and good conflict resolution (National Institute of Business Management, 1987, p. 75). A good whistleblowing system can play an important part in such a process.

As shown in Table II, 39 (46%) of the 84 organizations using formal ethics-related control mechanisms employed or were in the process of implementing some form of whistleblowing system, making it the second most popular mechanism. Further information regarding this system was obtained. The reader should note that not all of the 39 controllers responded to this part of the questionnaire.

The literature on whistleblowing systems indicates that two main issues are involved in their design: (1) whether whistleblowing should be encouraged inside or outside the organization; and (2) whether the whistleblower's identity should be kept confidential (Neilsen, 1987; 1989). In this regard, all 28 respondents reported that their companies encourage whistleblowing inside rather than outside of the organization. In addition, 24 (86%) of the 28 respondents stated their company keeps the whistleblower's identity confidential.

The study by the Center of Business Ethics (1986) indicated that the use of an ombudsperson is one type of whistleblowing system used by organizations in the United States. Information was collected on whether Canadian companies use ombudspersons. Twenty-seven (73%) of the 37 companies using whistleblowing channels did not employ an ombudsperson, five companies (14%) did, and 5 respondents (14%) indicated that they did not know. When choosing an ombudsperson the five companies all reported that the three most important qualifications considered are training in ethics or business ethics, management experience, and personal integrity. In four of the five companies respondents indicated that a person is appointed to the position rather than being elected or volunteering.

3. *Ethics focused reward systems*

As reported in Table II, only 10 (12%) of the 84 companies adopting at least one of the seven mechanisms use an ethics focused reward system. The analysis for this mechanism is based on the responses to three questions.

The first question sought to determine whether ethics compliance was part of the performance review of employees. Only one of the 10 respondents reported positively to this question.[5] With respect to the second question, no company formally rewarded employees for exhibiting ethical behavior. The final question sought to determine whether those identified as having exhibited unethical behavior were penalized by the organization. This was the policy for 8 of the 10 companies.

The fact that 88 percent of the 84 companies attempting to instil ethical behavior did not have an ethics focused reward system raises important questions regarding the motivation that organizations are providing their employees to behave ethically. For those 10 companies employing this mechanism, the results indicate that management relies almost exclusively on negative rather than positive reinforcement as the means to achieve the organization's ethical goals. While negative reinforcement policies are no doubt appropriate in certain situations of ethical misconduct (e.g., taking a bribe), firms are failing to benefit from the significant motivational benefits of positive reinforcement (see Herzberg, 1987).

Positive reinforcement can be expected to be beneficial when it is based on an employee's display of good judgment and/or moral fortitude in a difficult situation (as opposed to situations where employees simply follow the dictates of the code of conduct, e.g., not taking a bribe). A specific example might be reporting "bad news" early to one's superior as opposed to attempting to hide the problem or, worse yet, attempting to mask the problem by undertaking behavior which is actually dysfunctional to the organization.[6] Divesting of an important business area when there is knowledge that environmental concerns might arise in the future is another example. Regardless of whether rewards are directly linked to such behavior, if these employees get promoted then the message becomes clear: behaving ethically is the right thing to do. Such is a platform on which strong ethical cultures are built.

Discussion and further analysis of results

One hundred and twenty-six (74%) of the 171 respondent companies were taking some specific step to instil ethical behavior in decision making. Within this group, 84 companies were utilizing at least one of the seven mechanisms of interest to this study. While this overall result is fairly encouraging, indicating that ethical elements are receiving consideration in a good number of organizations operating in Canada, particularly in the larger ones, the following analysis suggests that much improvement remains to be accomplished.

The most frequently used mechanism is the code of ethics, with 46 percent of this study's respondents reporting using or in the process of implementing the mechanism. This result is considerably lower than the 75 percent result obtained by the Center for Business Ethics study. For the subgroup of firms using one or more of the seven mechanisms under examination, this percentage increases to 93%, indicating that the use of a code is the dominant plank in any firm's attempt to instil ethics into organizational decision making. The prominent use of a code of ethics was not unexpected. A code clarifies what is meant by ethical conduct and, in so doing, establishes standards for employees to gauge their behavior. However, while the use of a code is very important in instilling ethical behavior, it must be recognized that it constitutes only a first step (National Institute of Business Management, 1987, p. 80).

Conflicting results were obtained with respect to the enforcement of the code. Sixty-two (82%) of the 76 companies reported that their company monitored compliance with the code in some way, typically through self-reporting, e.g., sign-off procedures. On the other hand, and similar to the CBE study, only 14 percent have an ethics committee and only 5 percent of firms have a judiciary board – mechanisms which many consider to be an integral part of the enforcement of an organization's code (Brown, 1987; Cottell, 1987; Brooks, 1989; Shultz, 1989). More encouraging is the result that 46 percent of the firms have a whistleblowing system.

These results are difficult to interpret. For example, does the scarcity of ethics committees and judicial boards indicate firms are not serious and that the compliance procedures adopted are merely window dressing? Gellerman (1986) argues that the most effective deterrent is to "heighten the perceived probability of being caught." It is difficult to envision how this probability can be very high if firms do not possess ethics committees or judiciary boards. Without meaningful feedback, management is not in a position to ascertain whether organizational behavior is consistent with the code.

That many companies may only be paying lip service to the idea of promoting ethical behavior is further suggested by the results that communication of the code, as well as education about it, are poor. Only 68 percent of the companies provide a copy of the code to every employee, while only 41 percent have a formal program to educate employees about it. Moreover, only 30 percent of the firms adopting one or more of the mechanisms provide their employees with training in ethics (see Table II). Finally, 50 percent of the firms have no mechanism in place to review and revise the code, hardly the situation providing for a living document that can be used to guide one's behavior. In this regard, Thompson's (1992) comments in an essay entitled "Rhetoric and Reality" are particularly pertinent:

> "It's the right thing to do," the oatmeal commercial likes to say. . . . No doubt these efforts [adopting codes of conduct] are largely sincere and directed by people of integrity and goodwill. But consider what happens after the code of conduct is published and delivered to employees. Does an intensive effort begin to ensure the code is understood by all employees? Is it positioned as a part of everyday working life, visible in all the decisions and actions of the employees individually and the company itself? Or, does management heave a collective sigh of relief saying, "Well, we got that out of the way, let's get back to the real business of the business"? All too often, I suggest, the sigh of relief wins. The rhetoric, the fine words and phrases crafted by corporate speech writers for top management are often not backed up by communication and training for all levels of employees, or any effective form of support (pp. 54–55).

Further evidence for this contention is provided by the result that only 10 of the 84 companies adopting one of the seven mechanisms utilize an ethics focused reward mechanism. A related result is that only 51 percent of the companies specified disciplinary measures in the code for failures to comply with it (see Table IV). As the study by the National Institute of Business Management (1987) explains, a good ethical program cannot be patchwork in nature. It needs to be woven into the entire fabric of corporate life. Failure to seriously monitor, measure and reward (punish) the performance of individuals on the ethical plane will leave codes of conduct operating in a vacuum, of little use in actually promoting ethical behavior.

In interpreting this analysis through the framework presented in Figure 1, one summary conclusion is clear. For those firms taking specific steps to instil ethics into organizational decision making, the overwhelming majority are focusing only on the first component – specifying and communicating objectives – and even here the efforts are incomplete with respect to the communication aspect. They are doing very little with respect to the other two components, i.e., monitoring ethical performance/behavior and motivating ethical behavior by linking rewards/punishments to performance. Based on control theory, the absence of these latter two components can be expected to impair a firm's formal efforts at instilling ethical behavior among employees.

A second major finding is the apparent confidence that management has in the judgment of individual employees in leaving it up to them to determine what does and does not constitute ethical behavior. One hundred and forty-two (84%) of the 171 controllers reported that consensus among employees exists as to what constitutes appropriate ethical behavior within their organization. One would think that acquiring consensus on such a multi-faceted issue would at least require a code of conduct defining ethical behavior, as well as employee training in ethics. However, only 78 companies possess a code of ethics and, as previously reported, only 52 firms give a copy of the code to everyone. Furthermore, only 25 firms provide training to their employees on ethics. Given such a state, how can consensus be reached as to the appropriate standards of conduct? Without standards, employees will use widely varying criteria in assessing the acceptability of various practices (Bruns and Merchant, 1990). In this connection, Bruns and Merchant's (1990, p. 22) conclusion based on a study examining managers' attitudes towards short-term earnings management is alarming. They write: "It seems many managers are convinced that if a practice is not explicitly prohibited or is only a slight deviation from rules, it is an ethical practice regardless of who might be affected. . . ."

Finally, the Center of Business Ethics (CBE) study's results for U.S. companies provide a relevant benchmark to compare the practices of Canadian companies. Five of the seven control mechanisms included in this study were examined by the CBE (1986). Table V compares the absolute utilization percentages obtained in this study with those of the CBE study for each mechanism. As can be seen from examining Table V, companies operating in the United States are adopting four out of the five mechanisms to a greater extent than their Canadian counterparts. Nevertheless, an interesting observation to note is that the rankings of the most frequently used mechanisms are the same in both countries. However, readers should interpret Table V cautiously as the results could be significantly distorted by non-response bias, particularly in the CBE study where the response rate was only 28%. The specific concern is that organizations taking formal steps to instil ethical behavior might be more likely to respond than organizations possessing no mechanism, thus vitiating the comparison.

TABLE V
A comparison of absolute utilization percentages of mechanisms with those reported by the Center for Business Ethics (1986) study

Mechanism	Percentage of respondents utilizing Mechanism	
	CBE+	Current study*
Code of ethics	74.6	45.6
Ethics committee	14.3	7.0
Judiciary board	1.0	2.3
Employee training in ethics	35.5	14.6
Ethics focused corporate governance	16.5	8.2

+ The CBE percentages were calculated by taking the number of firms reporting using the mechanism (Table III, p. 87) divided by 279 (the total number of respondents in the study).
* Includes those firms in the process of implementing the mechanism. Total number (N) of respondents for the current study is 171.

In an attempt to reduce the effects of any potential non-response bias, Table VI compares the utilization frequencies for only those companies taking steps to instil ethical behavior in their companies (in the current study, any company implementing one or more of the seven mechanisms). The last column of Table VI provides the 95 percent confidence interval for the results obtained in the current study. If the CBE result is contained within the confidence interval, the results of the two studies can be considered to be reasonably equivalent. As can be seen, these results vary drastically from those reported in Table V, suggesting that the concern for non-response bias may be justified. The differences in percentages regarding the use of a code of ethics, ethics committee, judiciary board, and ethics focused corporate governance are all relatively small (less than 4%). The only real discrepancy, where the CBE results are outside of the confidence interval for the current study, relates to employee training in ethics, where U.S. companies utilize more employee training than Canadian firms.

TABLE VI
A comparison of mechanism utilization percentages with those reported by the Center for Business Ethics (1986) study (for only those companies taking steps to instil ethical behavior)

Ethics related control mechanism	CBE research+ %	Current research* %	95% confidence interval %
Code of ethics	93.3	92.9	87.7–98.5
Whistleblowing system	n/a#	46.4	35.5–57.2
Ethics focused reward system	n/a	11.9	5.0–18.8
Ethics committee	17.9	14.3	6.8–21.8
Judiciary board	1.3	4.8	0.2– 9.4
Employee training in ethics	44.4	29.8	20.0–39.6
Ethics focused corporate governance	20.6	16.7	8.7–24.7

+ N equals 223.
* N equals 84.
# The CBE study did not investigate this mechanism.

In conclusion, the situation existing in Canada in 1991 appears reasonably comparable to the one existing in the United States in 1984/1985 when the CBE study was conducted. This time lag might suggest that American companies are further along in their efforts at instilling ethical decision making among their employees than Canadian companies. The previously reported finding that companies with foreign parents (primarily those located in the U.S.) have more ethics related control mechanisms than companies with Canadian parents is also suggestive that Canadian firms might be lagging behind their American counterparts. One reason which may explain this situation is that management of Canadian organizations may perceive there is less need for *formal* control mechanisms because there have been fewer instances of unethical behavior in Canada and, consequently, less public pressure to respond. Nonetheless, any conclusions in this area are beyond the scope of this study. Surveying firms in both countries simultaneously along with undertaking a systematic inquiry focused at discovering why the lag exists would be necessary.

Conclusion

This paper has developed a theoretical framework of control for instilling ethical decision making by linking the various ethics related control mechanisms identified in the literature to the primary components of a management control system. In addition, and while much more research needs to be undertaken in this area, the findings of this study provide considerable insight into the ethics focused control mechanisms that are being utilized by Canadian companies. These findings should serve to provide important baseline information for future studies.

Like all studies, this study has limitations which should be considered in interpreting the findings. The characteristic problems with mail surveys apply to this study, although every effort was taken to minimize them. The study obtained a 57 percent response rate which can be considered to be very good. Moreover, population checks with sample data suggest that the sample is reasonably representative on key attributes. Nonetheless, a non-response bias may still exist. Readers are therefore cautioned against making sweeping generalizations. In addition, the use of the *Financial Post*'s list of companies, along with the omission of companies operating in Quebec, provide a population which is unrepresentative of all companies in Canada. As well, the demographics provided by the *Financial Post* were sometimes difficult to interpret in terms of placing a company in a particular subpopulation category. Lastly, due to the importance of minimizing respondents' time in completing the questionnaire, the study could not examine all the variables which might be expected to play an important role in influencing ethical decision making, e.g., corporate culture, leadership.

Finally, this study was based on the premise that an organization's management control system can play an important role in directing and influencing employees to pursue ethical behavior. Clearly, the use of a MCS (in terms of the mechanisms discussed in this paper) in itself is not sufficient for instilling ethical behavior in employee decision making. For example, one can envision a situation where short term earnings are being stressed by management resulting in employees feeling the need to compromise their ethics – despite any formal ethical codes of conduct to the contrary. In this situation, the wider control system, i.e., management's emphasis/communications, would be providing ambiguous or conflicting messages.[7] Nonetheless, this premise needs to be examined empirically with respect to a number of issues. Specific questions might include: how important is the formal management control system (MCS) in instilling ethical behavior? Also, does the formal MCS play a secondary role to more important factors, e.g., leadership and culture, or is its role complementary, i.e., both are needed? Answers to these types of questions can be expected to shed much needed light on the development of effective control systems for instilling ethical behavior in organizations.

Notes

[1] Quebec companies were excluded because of translation difficulties.
[2] All tests are two-tailed.
[3] Some firms are in more than one category.
[4] The 95 percent confidence interval for the present study was 67.1 to 80.3 percent.
[5] This result would seem to be at odds with the finding reported above which indicated that 11 firms incorporated compliance with the code during performance evaluations. This inconsistency might suggest that the questionnaire did not accurately capture respondents' situations with respect to the use of ethics focused reward systems, at least in the sense intended by the researchers.
[6] The management accounting literature is replete with examples of subordinates undertaking dysfunctional behavior in order to perform well on performance criteria (see Hopwood, 1976; Emmanuel *et al.*, 1990). However, for a contrary example related to this discussion, see Simons (1987, p. 351).
[7] See Rotch (1993) for a broader view of management control systems and the importance of recognizing the interdependence of the components of control.

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