Corporate Codes of Conduct: A Collective Conscience and Continuum

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ABSTRACT. This paper discusses the vast continuum between the letter of the law (legality) and the spirit of the law (ethics or morality). Further, the authors review the fiduciary duties owed by the firm to its various publics. These aspects must be considered in developing a corporate code of ethics. The underlying qualitative characteristics of a code include clarity, comprehensiveness and enforceability. While ethics is indigenous to a society, every code of ethics will necessarily reflect the corporate culture from which that code stems and be responsive to the innumerable situations for which it was created. Several examples have been provided to illustrate the ease of applicability of these concepts.

The concept of business ethics is of significant, widespread concern as has been demonstrated by vehement public outcry against numerous business-related scandals. These scandals have resulted in investigations of various aspects of corporate culture and a proliferation of recommendations, surveys, seminars, and programs addressing the need for increased quality in business conduct and the development of good corporate citizens. Many of these outcomes focus on the development and implementation of corporate codes of conduct. This paper first differentiates ethics from law in order to have a basis from which to derive ethical codes. Next, the fiduciary responsibilities of companies and the reasons for and problems with designing corporate codes of conduct are discussed. Last, some foundation standards for developing corporate codes of ethics (or conduct) are presented and illustrations are given as to how these basic standards can be applied to any ethical question.

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Definition of ethics

Ethics is a system of value principles or practices and a definition of right and wrong. Ethics differs from the law, in that laws are designed to reflect a society's attitudes and desires about the culture in which it wishes to exist. Thus, sometimes society may condone an act as legal although that act, in itself, may be viewed as immoral. Legitimizing a "wrong" act because of circumstances or societal mores does not make that act any more moral.

Although legality generally stems from what society believes is morally right or wrong, an issue's legality does not always reflect the totality of its perceived morality. This differentiation reflects the classic distinction between the spirit of the law (morality) and the letter of the law (legality).

If society is to function effectively, each member of society should attempt to behave in a moral manner regardless of the law. The law simply provides for deviations from absolute morality; laws give society the standards upon which to build "situational ethics." For example, most reasonable persons would agree that murder is not moral. The law, however, states that murder is legal under certain circumstances. But, regardless of the depth and breadth of a legal code, every immoral or illegal behavior cannot be proscribed. Thus, the spirit of the law is always broader than the letter of the law.

These same ideas of the spirit and the letter of the law can be used in developing corporate codes of conduct. Care should be taken to look for the ethical

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morality of a situation rather than only its ethical legality. In a way, this premise can be likened to the accounting concept of substance over form. The substance of a transaction represents its underlying actuality or "morality;" the form of a transaction is simply its legal appearance. To properly present a transaction, accountants should overlook the express legal form (the "letter" of the transaction) if it is in conflict with its substance (the "spirit" of the transaction).

A code of ethics should be based at the highest possible moral level in order to have an ultimate standard towards which to strive. This ultimate standard requires an acknowledgement by all members of society of the trust (or fiduciary duty) placed in them to uphold both the spirit and the letter of the law. A corporation, in developing a code of business ethics, should take its proper place as a member of society through its status of a legal "person". As such, it is imperative that the individuals who compose the corporate entity recognize their fiduciary obligations.

The Fiduciary responsibilities of business

The fiduciary duties of business are directed towards three separate groups, of which society itself is the largest. The duty owed to the society is born of the symbiotic relationship existing between the firm and the society in which it functions. The firm would not exist except that society granted it the right to operate; society benefits from the firm's existence because the firm is productive and adds value to society. So, both the firm and society benefit. If the firm breaches its fiduciary duty to uphold the spirit or letter of the law, both groups would suffer as the symbiotic effect declined.

Society includes all people and organizations composing the community in which a company exists. In relation to this fiduciary responsibility, however, the authors have chosen to exclude consumers of the company's products and/or services and to view consumers as a separate responsibility category. Our definition of society, in this context, includes not only host communities but also company regulators, competitors, and special interest advocacy groups.

For example, a legal violation of fiduciary responsibility to society occurs if a firm illegally and continuously dumps hazardous waste into a river near its manufacturing plant. On the other hand, a firm (through fair means or foul) which requires all employees, regardless of their abilities or needs, over a certain age to retire has effected a moral violation of responsibility. In either case, society has lost some degree of well-being due to the polluted river or the lost productivity of workers. In addition, in the first instance, competitors which are not allowed the same method of dumping waste may suffer because their treatment of waste may cost significantly more and, thus, create lower profits. In the second case, the retirement issues may attract the attention and concern of special interest groups like the AARP (American Association of Retired Persons) or federal regulators dealing with the ADEA (Age Discrimination in Employment Act). The irresponsible firm suffers either through fines levied upon it or, possibly, a less skilled workforce.

The second group to which the firm owes a fiduciary duty is the equity interests of the firm — the current creditors and owners. The idea of a firm being responsible to this group is well settled and of long standing. Creditors and owners invest money/effort/time in the firm and, in turn, expect the firm to diligently pursue their interests. They expect the firm to provide goods and services to society at a return substantial enough to increase their equity interests. By providing such a return, both the equity interests and the firm benefit; the benefits validate the synergistic relationship between these groups.

Being remiss in this firm-equity interest relationship is illustrated by the following examples. Assume managers in an organization use company funds to take personal trips. Using organization funds in this manner means that fewer dollars are available to return to the equity holders in the form of interest, repayment of debt, or dividends. Such activities are generally legal violations of the firm's fiduciary duties. In contrast, another firm's management has authorized company investments in discriminatory South African entities. Although such investments may return capital to the equity interests, those investments may be viewed by some equity holders as a moral, rather than a legal, violation of responsibility.

Finally, the firm has a fiduciary responsibility to consumers. This duty requires the firm to be honest about its products and operations with consumers. The fiduciary duty is breached if, for example, a firm falsifies the ingredients used in the production of a food item. Non-disclosure is often as much a breach as falsification. Consider the food company which did not indicate the use of salt in the manufacture of a candy bar because that ingredient was such a small and insignificant amount. A young boy, extremely allergic to salt, died after eating one of the candy bars. It is not likely that his family feels the company upheld its fiduciary duty to consumers. If the law states that only ingredients composing more than a certain percentage of total proportions must be disclosed, the company has had no legal violation of its fiduciary duty to consumers. However, was there a moral violation in nondisclosure?

Violations of fiduciary duties occur in all areas and degrees. Some are more noticeable than others; some affect individuals more personally than others. However, each violation causes disruption in the relationship between the firm and each of the groups to which it is responsible. Both the firm and the members of the groups suffer. In the long run, society, equity interests, and consumers will eventually turn away from a firm which continuously violates its fiduciary responsibilities.

Corporate codes of conduct

Increasing numbers of corporations have begun to recognize their various responsibilities for both moral and legal behavior. Some of this recognition has been caused by external pressure; some of it has been caused by an internal sense of responsibility. A typical and highly visible means by which corporations are responding to external or internal forces is the adoption of a corporate code of conduct or code of ethics. A recent survey by the Conference Board of 300 major companies showed that over 75% of the companies surveyed had adopted written codes of conduct.[1] Such codes seem to focus on illegal acts – acts which have been defined by the law as punishable (for example, overcharging, bribing, and manipulating accounting books and records). Most of the codes fail to address immoral acts or issues such as executive character, product quality, or civic responsibility. Very few of the codes indicate what behavior is acceptable under specific situations.

Behavior appears to be significantly impacted by the corporate culture in which an employee works. A survey in the early 1980s indicated that more than 70% of the executives and middle managers interviewed "felt the pressure to conform to organizational standards and often had to compromise personal principles."[2] Such compromises may be made in order to get ahead or, simply, to conform and get along. William Frederick (a business professor at the University of Pittsburgh) reviewed ten academic studies on corporate ethics and concluded that the real problem of unethical acts lies with the business climate rather than the individual employees. The studies indicated "that even the most upright people are apt to become dishonest and unmindful of their civic responsibilities when placed in a typical corporate environment."[3]

A corporate can be viewed as a microcosm of society – a miniature world. It has leaders and "citizens" (employees) who follow those leaders. Citizens, whether in a corporation or in society, tend to follow the behavior observed in their leaders. The citizens presume (correctly so in most cases) that the leaders set both the tones of morality and legality. Generally, there will be individuals who refuse to follow their leaders. In society, the non-followers are, at best, branded as trouble-makers and ostracized or, at worst, killed. In the corporate environment, retaliation against antagonists ranges from ostracism to firing. If the behavior exhibited by the leaders is immoral or illegal, employees will (unfortunately) find themselves engaging in similar behavior in order that punishments do not occur. It is the chief executive officer who is responsible for setting standards of ethical conduct for employees according to almost 75% of the respondents in a Touche Ross survey.[4] If this is true, it appears that the root of unethical corporate acts stems from a business climate that condones malfeasance. In fact, the Treadway Commission[5] acknowledged this idea after studying numerous cases of fraudulent financial reporting. "In a large majority of the cases the Commission studied, the company's top management, such as the CEO, the president, and the CFO, were the perpetrators."[6]

Why Are Corporate Codes of Conduct Drafted?

Corporate codes of conduct should be developed in order to affect the behavior of all employees in the organizations. However, often the primary impetus for drafting codes of conduct is because companies are being pressured to do so by various outside forces. For example, a major recommendation of the Treadway Commission was that companies develop and enforce written codes of conduct. The Commission felt that codes of conduct would help management and auditors in the early detection of fraud. This recommendation is being taken seriously.

Companies also establish codes of ethics because they have agreed to do so under a project called the Defense Industry Initiative on Business Ethics and Conduct. This project was designed in 1986 to help reform defense contracting. Under the project, "46 contractors – including most of the nation's largest – agreed to establish internal codes of ethics, to conduct ethics training sessions and to make available company hotlines for employees to report suspected abuses."[7]

Corporations are also preparing codes of conduct because it is the "in" thing to do. Top management in a company which does not yet have a code appoints a committee to draft one or employs consultants to help determine the value code under which the organization wishes to exist.

Some codes of conduct or ethics are even prepared for what could be considered the right reason – companies want to communicate management's concern for high-level, ethical standards of behavior and corporate social responsibility. These codes reflect the real and on-going corporate culture regardless of the management team, legal directives, or social climate.

Persons favoring corporate codes of conduct insist that such codes are "particularly important these days to spell out corporate positions on difficult issues such as employee testing and privacy, insider trading, and industrial espionage."[8] Codes of conduct may be formulated in order to help organizations "go through mergers, acquisitions, and restructuring."[9] Proponents assert that major changes in corporate structure are facilitated by a corporate code of conduct. For example, such a document can inform employees from newly acquired companies of practices which are contrary to the culture of the organization to which they now belong. Regardless of why codes of ethics are being established, "one of the major benefits of establishing [such codes] is the process of discovery and harmonization of interests that occurs from the participation of many different managers in the formation of the code."[10]

What problems arise in designing a corporate code?

A major difficulty in formulating corporate codes is that codes are often viewed by workers as touting the way things should be as opposed to the way things are. For example, the Foreign Corrupt Practices Act of 1977 prohibits companies from making various types of illegal payments to obtain or retain business in foreign countries. Top corporate executives, while vowing in a code of conduct not to make such payments, often do so without major qualms. The payments are justified on the basis that a portion of international business routine typically thrives on such "facilitating" payments. This behavior evinces the "do as I say, not as I do" attitude existing in some organizations.

When management drafts a code of ethics, many employees feel that there is an implication that someone is doing something wrong. That implication may be true. But, if it is the top managers who are the persons who are violating the code, trying to communicate the value of ethics to lower level employees becomes very difficult. Corporate cultures which stress strict, good faith adherence to ethical standards of behavior do not necessarily have to codify those standards. Such organizations may find that their employees are more likely to act in good faith and to follow the spirit, and not merely the specified letter, of ethical behavior.

Another problem relating to the development of a corporate code of ethics is that of determining who has violated it. Children refer to individuals who inform on wrongdoings as "tattletales." This term does not seem appropriate to apply to people who we want to inform on others; thus, the popular, more positive term *whistleblowers* is used in corporate and governmental environments. While it is essential to have whistleblowers to pass along information on deviations from expected ethical conduct, how much credibility should be given to stories of misdeeds and, after the tales have been told, how should whistleblowers be treated by other employees and management?

Managers must be alert to the fact that stories told of irregularities may be untrue. Sometimes these fictitious tales will be the result of inaccurate observations or tangled facts; at other times, the tales will be caused by the desire of one individual to cause another harm. The code of ethics must make provisions for investigating a situation's facts before damage may be done to a reputation. Additionally, the code should specify that reprisals against factual whistleblowers are prohibited.[11] Reprisals often come from three sources: individuals who are accused of unethical acts; those who have violated the code but have not yet been caught; and those who still retain the "he's a tattletale" mentality of their youth.

Determining the level specificity of a code is also a problem. Some codes are excessively detailed; others are excessively simplistic. Trying to find the appropriate "comfort level" for a company is not easy. For example, Levi Strauss and Co. went from one extreme to the other. The company began with a 13-page booklet which provided detailed procedures and policies – then ended with a half-page statement of principles. A company spokeswoman said the change was made to reflect the company's "confidence in its employees own sense of right and wrong [and it] would prefer to have them turn to their manager or supervisor for guidance or support, rather than to a detailed document."[12]

The tone of a code must be appropriate. If the tone is negative rather than positive, it can create an attitude problem among employees. Workers view many current codes as accusatory, threatening, demeaning, unrealistic, and excessively legalistic. Equally disheartening to employees are codes which are viewed as mere public relations or "window dressing." These codes provide nothing more than dormant behavior standards which are not meant to be enforced or observed.

Reviewing these complaints indicates that many of them relate to the form, rather than the substance, of the codes. To that end, if a code is well-written and has certain characteristics, it should be more acceptable to the individuals who must operate under it and more meaningful to the organization which developed it.

Underlying qualitative characteristics of an ethics code

In order for a code of ethics to be a viable, useable, and well-written document, it should be based on certain underlying qualitative characteristics. These characteristics are similar to those deemed by the FASB's Statement of Financial Accounting Concepts –2 to make financial information useful. The qualitative characteristics of a code of ethics are clarity, comprehensiveness, and enforceability.

The concept of clarity refers to the absence of ambiguity, doubt or vagueness. In order for a document to have clarity, it must be written in an understandable, concise, specific, and honest way.[13] Clarity implies that the reasonable person of good faith would glean the appropriate message from the words and structure of the document. If a code is clear, conduct in keeping with the message would be adjudged proper and, therefore, ethical; conduct contrary to the code would be an obvious violation of the code and unethical.

An ethics code should be comprehensive; this implies that the code cover virtually any conduct. This characteristic may sound unreasonably broad, but it is necessary due to the idea of conforming to the spirit as opposed to the letter of the law. Consider the laws shared by a society. In essence, laws are highly developed, promulgated codes reflecting the ethical values shared by entire cultures. Laws are written to apply to broad ranges of conduct. Under the law, if a rule is not promulgated, an individual cannot be punished for its violation. In the same manner, a corporate employee could not be punished for abridging rules which are not specified. Since all violations cannot be spelled out in advance, the code should be comprehensive enough to envelope the spirit of ethics and morality.

A corporate ethics policy that appears on the surface to the both clear and comprehensive is that of McDonnell Douglas Corp. The policy states that employees should be "honest and trustworthy in all relationships."[14] Unfortunately, this policy statement may have been too broad and vague to be effective – the management at McDonnell Douglas Corp. is involved in a major defense contractor scandal over improperly obtained bidding data and contracts. It is possible that such a glowing ethics standard could not co-exist in a company which also had set such grandious goals as a 40% cost reduction and a 90% improvment in quality.[15] It is important to note that, regardless of the working, an ethics code will fail when it exists in a company whose management does not adhere, in good faith, to the ideals espoused by the code.

Finally, the code must be enforceable. There must be specific descriptions regarding expected behavior, behavior which constitutes violations of the code, and punishments for violations. Punishment must be spelled out for three reasons: (1) to maintain the clarity and comprehensiveness of the code; (2) to allow the individual an opportunity to decide if an improper action is worth the corresponding punishment which will be meted out; and (3) to provide for the enforcement of the code. If punishments are not specified, people performing unethical acts will most likely continue to act in ways they view as beneficial to themselves or to the organization. Upon being "caught" in an unsuitable activity, a person can simply state he/she had no idea of the consequences of his/her actions. Such activity will reoccur unless the promulgated consequences are enforced.

Many companies currently include penalities for ethical violations in their codes of conduct. A study by the Conference Board indicated that 58% of the companies surveyed specified punishments for acts contrary to the code. Dismissal was cited as the most common punishment; it was included in 52% of the codes.[16] (In fact, 61% of the companies surveyed have actually dismissed employees over the past 5 years for various improper ethical conduct.)[17] Other punishments include suspension, probation, demotion, and comments appearing in appraisal evaluations. The compromising of ethical values should carry appropriate punishments; situations should not be allowed which are validated by the adage "the end justifies the means."

In summary, a useful ethics code should be: clear and understandable to the average person; comprehensive in indicating the extent of its provisions; and enforceable by specifying the ramifications of improper actions.

Fundamental standards of ethical behavior

As indicated above, there are the moral (spirit of the law) and legal (letter of the law) aspects to the concept of what is ethical. By considering these aspects of ethics and keeping in mind the requisite qualitative characteristics of good codes, a hierarchy of ethical behavior can be formulated. Such a hierarchy will allow management to determine the detailed substance of the code by indicating various levels of standards of behavior. The hierarchy begins with the most moral behavior and ends with behavior which is legally acceptable.

This hierarchy of ethical behavior is founded on the types of standards used in cost accounting. There are four levels of standards in this scheme: theoretical, practical, currently attainable, and basic. In ethics, as in cost accounting, these levels reflect degrees of difficulty of achievement. The highest level of behavior is the theoretical level. This level is the ideal and, while it is virtually impossible to reach, it represents the highest potential towards which society should continuously strive. The practical level represents behavior which can be achieved the majority of the time through diligent effort. The third level (the currently attainable standard) represents the behavior normally exhibited by individuals. This level of behavior has the characteristic of being accepted by society, but not lauded since it really does not call for enormous amounts of effort to "do right." The final level is the basic standard. At this level, behavior is acceptable since it is within the letter of the law; however, this level does not reflect any attempt to understand and comply with the spirit of the law. These standards of ethical behavior are illustrated in Exhibit I.

These four standards of behavior can be combined with fundamental ethical principles to create a foundation upon which to base decisions concerning almost any moral/ethical question. The fundamental ethical principles stem from and include the concepts of integrity, justice, competence, and utility. This basic range of content allows ethics codes to be individualized and flexible as to the particular company and industry norms.

Integrity means to be of sound moral principle, to have the characteristics of honesty, sincerity, and candor. Justice reflects impartiality, sound reason, correctness, conscientiousness, and good faith. Competence is defined as capable, reliable, and duly qualified. Utility indicates the quality of being useful and, philosophically, providing the greatest good for

EXHIBIT I
Standards of ethical behavior

Theoretical	reflects the highest potential for good; the spirit of morality
Practical	reflects extreme diligence toward moral behavior; achievable but difficult
Currently attainable	reflects behavior deemed basically moral by society
Basic	reflects minimally acceptable behavior; the letter of the law

the greatest number (or the least harm to the greatest number).

Exhibit II presents some hierarchical propositions which result from integrating the fundamental ethical principles with the four standards of behavior. From these propositions, ethical guidelines can be addressed for other specific situations. In each case, the term *firm* can be interpreted as owners, top management, and all employees.

Each level of each category in the hierarchy is fairly self-explanatory, with the possible exception of utility. This principle can be used to illustrate the type of ethical code directive which would result from each level of standard. At the highest level of behavior, a firm considering an action would actively gather information on how this action would affect all parties, consider this information equally and fairly, and take the course of action which would produce the greatest good (or do the least harm) to the greatest number. The practical standard requires that the firm consider as much information as is readily and reasonably accessible and give that information equal attention. The currently attainable standard states that the firm consider all readily available information in making a determination about the utility of the action. The expected standard of behavior simply states that the firm will subjectively select information to consider in making the decision.

Consider the differences between each of the levels of utility standards. The difference between the theoretical and the practical standard of behavior

EXHIBIT II
Hierarchical propositions

Integrity	
Theoretical standard	The firm will adhere to a code of values including, but not limited to, the definitional values of integrity (sincerity, honesty, and candor).
Practical standard	Members of the firm will understand and support (both in spirit and to the letter) the codal values established by the firm.
Currently attainable standard	Members of the firm will support the code established by the firm to the best of their abilities.
Basic standard	Members of the firm should attempt to perform their duties within the bounds or structure of the code.
Justice	
Theoretical standard	The firm will treat all with whom it deals in an equal and just manner.
Practical standard	Members of the firm have credible and legitimate reasons for any disparity or deviation from equal and just treatment among those with whom they deal.
Currently attainable standard	Members of the firm will use their best judgment to insure the equal and just treatment of all with whom they deal.
Basic standard	Members of the firm will be able to defend any disparity or deviation in the treatment accorded to those with whom they deal.
Competence	
Theoretial standard	The firm will initiate and maintain a competent workforce.
Practical standard	Members of the firm will insure that they keep up with the state of the art of their particular industry and job.
Currently attainable standard	Members of the firm will strive to maintain competency in their jobs and work functions.
Basic standard	Members of the firm will be able to perform their jobs without harm to others.

Exhibit II (continued)

Utility	
Theoretical standard	The firm will actively seek information on the impact its decisions will have on all parties and it will weigh this information equally.
Practical standard	Members of the firm will consider as much information as is readily/reasonably accessible, giving all aspects equal consideration.
Currently attainable standard	Members of the firm will consider all readily accessible information in making decisions.
Basic standard	Members of the firm will subjectively select information to consider in making decisions.

is whether the firm actively seeks information from all parties or whether it relies on information which can be obtained easily, quickly and with moderate cost. The difference between the practical and currently attainable standards revolves around the degree of attention given to all points of view. At the practical level, even those viewpoints which are in opposition to the firm's wishes are weighed equally in the decision process. The currently attainable standard specifies nothing about equal weight of information. Thus, the practical level provides a stricter, more stringent inquiry into the utility of the proposed action. The expected standard allows the firm to place more emphasis on acquiring/using information which would support the decision the firm wants to make. The law does not require equal weight be given by decision makers to all points of view so the firm is well within the letter of the law at this level of behavior.

Specific ethical dilemma examples

To further clarify how these concepts and standards of behavior can interact to produce a clear and comprehensive code, three examples are provided. The examples were chosen to represent the efficacy of the basic codal structure as it relates to situations between business and society, business and its stakeholders, and business and the consumer.

The first example of application of this structure is representative of the relationship of business and the society in which it exists. The subject relates to payments made by a firm to obtain or retain business. The hierarchial propositions for this ethical problem are as follows. Key words or phrases differing between each successive level are in bold face type.

Theoretical standard	The firm will make no payments to obtain or retain business in foreign or domestic markets.
Practical standard	The firm will make no illegal payments to obtain or retain business in foreign or domestic markets.
Currently attainable standard	The firm should not make illegal payments to obtain or retain business in foreign or domestic markets.
Basic standard	The firm should try to limit the number of illegal payments made to obtain or retain business in foreign markets.

In the theoretical standard, no reference is made to illegal payments. At the most ethical level, companies should obtain and retain business based solely on factors such as price, quality, and service. There should be no need to make payments of any kind to acquire and keep customers. Also, in this situation, the term *illegal* still appears in the lowest, basic standard. Since the basic standard is supposed to represent the letter of the law, this phraseology is seemingly contradictory. However, this standard is related only to foreign markets. This wording is due to the undeniable fact that, until foreign markets operate under the same code of values as the United States, certain "facilitating" payments will need to be made overseas. While the authors do not condone such practices, the reality of the situation exists and, at the lowest level of acceptable behavior, should be acknowledged and minimized.

The example depicting the relationship between business and its stakeholders is that of ethical financial reporting. These standards reflect the use of terminology which was a part of auditing language for many years.

Theoretical standard	The firm will prepare financial statements accurately and with complete financial and qualitative disclosure.
Practical standard	The firm will prepare financial state-

	ments which are fairly presented and with complete financial and qualitative disclosure.
Currently attainable standard	The firm will prepare financial statements which are fairly presented in accordance with generally accepted accounting principles and with complete financial disclosure.
Basic standard	The firm will prepare financial statements which are fairly presented in accordance with generally accepted accounting principles and with adequate disclosure.

Because of court decisions regarding acceptable financial statement presentation, this example is especially relevant to encouraging the advocacy of the practical standard. (Complete in the context of these standards means thorough rather than total. It is not cost/beneficial nor useful to disclose every informational detail about an organization.)

Finally, the example chosen to illustrate the hierarchical standards of behavior between business and the consumer concepts and standards is the impact of the environment of business decisions.

Theoretical standard	The firm will consider the enviromental impact of all decisions.
Practical standard	The firm will consider the environmental impact of all decisions which may significantly affect the environment.
Currently attainable standard	The firm will consider the significant environmental impacts of all production decisions.
Basic standard	The firm will consider the legality of its decisions as they relate to existing environmental laws.

These examples follow the basic premises set forth earlier and, from top to bottom, provide successively lower levels of integrity, justice, competence, and utility. The theoretical standard represents the ultimate definition of integrity, justice, competence, and utility; the basic standard represents the minimally acceptable level of each principle.

The obvious question must now be posed: on which level should society demand that business operate? The authors' premise is that behavior and codes of ethics should be at least on the currently attainable level. It is only if the currently attainable level is chosen as a minimum standard against which to judge conduct that the proper fiduciary duty, and thereby the synergistic effect, can be performed between business and the stakeholders, society, and consumer. However, knowing that the practical level of behavior can be attained (even though extra effort is required) should present an incentive of opportunity for society and business together to move closer to adhering to the spirit rather than just the letter of the law.

Enforceability

The aspect of enforceability remains as the final question to be answered. Can the hierarchical structure presented above be enforced and, if so, how? The authors feel that the system is enforceable because the standards are clear and comprehensive. How the code is enforced will depend on two things: the level of standards adopted by the corporate entity and the corporate culture into which the code is adopted.

A company designating the theoretical level of standards for the expression of its code of ethics will find enforceability basically impossible since it is rare that such a level of behavior can be achieved. If the firm approves a code stated at the practical level of behavior, it is accepting the responsibility for requiring additional efforts of its employees to do the right thing. The consequences of lack of appropriate performance should be judged based on the level of attempt to adhere to the higher standard. If the firm has accepted the currently attainable or basic level of conduct as its goal, punishments for deviations from those levels should be extremely harsh since these have been espoused as the lowest acceptable levels of behavior.

One question which must be answered before an ethics code is implemented is "Who will enforce the code?" It is not enough to have a code of ethics in place; the company must be certain that the individual or group charged with evaluating violations and handing out sanctions has and is viewed as having high and unquestionable ethical standards. If a "small" violation occurs, an individual could be responsible for enforcement. However, major violations of ethical codes should be handled by a group for several reasons: the burnout factor for an individual would be too high; a single judgment or opinion should not be allowed to prevail in material issues; and, potentially, the complexity of the violation or its related effects may be so complex that a single individual would not have all the appropriate skills needed to handle the violation.

Enforcement systems adopted by companies will vary according to the corporate culture of the firm. The corporate culture will be reflected in part by the level of standards chosen for the code itself. The plans should be reviewed by the stockholders as well as employees at all levels of the firm, so that enforcement will have "grass roots" support. Consideration should be given to items such as the following in setting enforcement provisions for a code of conduct:

- the level of employment at which the deviations occur;
- the familiarity of employees with the code;
- the training employees at all levels have had in provisions of and penalities for deviations from the code; and
- the length of time the employee who deviated from the code had been employed by the firm.

Ethics codes cannot simply be handed out to employees who are then expected to follow the standards. Training programs are essential to introduce the employees to the code, clarify any questions that employees may have, and make them aware of how compliance will be assessed and the enforcement procedures which will be followed. Employees are often asked to sign statements indicating they have been given, have read, and understand the ethics code. Such statements are up-dated periodically in order to continuously stress the aspect of keeping the code at the forefront of employee behavior.

Once employees are notified that they are being held accountable for ethical behavior, such behavior can become one part of the job evaluation system. Sanctions (including dismissal and, potentially, prosecution) for unethical behavior will be known by employees. Ethical behavior may be rewarded in various ways – the most obvious are that employees keep their jobs and receive raises and promotions. Exemplary ethical conduct could be rewarded through bonuses, publicity (internal and/or external) or other forms of recognition.

Codes or details contained within them may also be distributed or disseminated to the external parties to which the company has fiduciary responsibilities. It is not that individuals within the organization are informed of the need for adherence to ethical conduct, others with whom the company has relationships must also be made aware of the principles by which that company should be held accountable.

Conclusion

Ethics is indigenous to a society. Thus, while any code of ethics should stress the same basic values, each code will reflect the corporate culture from which it stems. Companies which have been previously involved in certain unethical practices may choose to be action-specific while companies who have developed and maintained a favorable ethics image may choose to only provide a description of their "business style." In between these two ends of the continuum, any number of variations of ethics codes may be issued.

In any form however, a corporate code reflects the ethical behavior standards to which the company has committed itself and its employees. Such a code will succeed in its goal only if it is supported by the board of directors, management, and the employees. In order to be functional, the code must be clear, comprehensive, and enforceable. It must be built on a foundation composed of the principles of integrity, justice, competence, and utility. A code which meets these requirements will be a workable tool with which to shape the corporate culture.

In establishing the foundation elements of the code, a company must determine its perception of ethical behavior – should such behavior be limited to actions which are acceptable under the law or should it encompass the concept of morality and the spirit of the law? Standards of behavior can be specified at various levels of difficulty. Setting conduct standards which require individuals to strive for moral excellence in their work environment will result in a business climate of greater probity and honor. Such a climate can only create a better society. In this manner, business and society continue the benefits resulting from the synergistic effect created by their responsibilities to one another.

Notes

[1] 'Survey Examines Corporate Ethics Policies', *Journal of Accountancy* (February 1988), p. 16.
[2] Rick Wartzman, 'Nature or Nurture? Study Blames Ethical Lapses on Corporate Goals', *The Wall Street Journal* (October 9, 1987), p. 21.
[3] *Ibid.*
[4] 'Ethical Standards Seen As Good For Business', *Journal of Accountancy* (April 1988), p. 20.
[5] The Treadway Commission (the National Commission on Fraudulent Financial Reporting) was formed in 1985 by the American Institute of CPAs in cooperation with other organizations. The goal of this group was to determine methods of preventing or detecting improprieties by individuals involved in the financial reporting process. The 49 recommendations of the Commission were issued in October 1987.
[6] National Commission on Fraudulent Financial Reporting, *Report of The Nation Commission on Fraudulent Financial Reporting* (1987), p. 24.
[7] Eileen White Read, 'Contractors' Ethics Plans Get Scrutinized', *The Wall Street Journal* (July 21, 1988). p. 4.
[8] Amanda Bennett, 'Ethics Codes Spread Despite Skepticism' *The Wall Street Journal* (July 16, 1988), p. 15.
[9] *Ibid.*
[10] Jack N. Behrman, *Essays on Ethics in Business and the Professions* (Prentice Hall, Englewood Cliffs, NJ, 1988), p. 156.
[11] There are bills in Congress which, if passed, would prohibit retaliations against certain whistleblowers. There are also organizations (such as the Project on Military Procurement and the Government Accountability Project) which provide legal, financial, and emotional help to workers who have blown the whistle on wrongdoing.
[12] Bennett, *ibid.*
[13] Richard T. DeGorge: 1986, *Business Ethics* (MacMillan Publishing Company, New York, NY), p. 342.
[14] Todd Barrett, 'Business Ethics for Sale', *Newsweek* (May 9, 1988), p. 56.
[15] White Read, *ibid.*
[16] 'Survey Examines . . .', *ibid.*; Bennett, *ibid.*
[17] 'Survey Examines . . .', *ibid.*

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