

The Effect of Published Reports of Unethical Conduct on Stock Prices

Spuma M. Rao
J. Brooke Hamilton III

ABSTRACT. This study adds to the empirical evidence supporting a significant connection between ethics and profitability by examining the connection between published reports of unethical behaviour by publicly traded U.S. and multinational firms and the performance of their stock. Using reports of unethical behaviour published in the Wall Street Journal from 1989 to 1993, the analysis shows that the actual stock performance for those companies was lower than the expected market adjusted returns. Unethical conduct by firms which is discovered and publicized does impact on the shareholders by lowering the value of their stock for an appreciable period of time. Whatever their views on whether ethical behaviour is profitable, managers should be able to see a definite connection between unethical behaviour and the worth of their firm's stock. Stockholders, the press and regulators should find this information important in pressing for greater corporate and managerial accountability.

Introduction

The question of whether there is any causal link between a company's ethical or unethical behaviour and its bottom line is an important one. There is always the cynic's view that ethics has no place in business and that businesses only need to appear ethical to succeed (Carr, 1968). The current political adage that those who play by rules should not be penalized refers to the nagging doubt that those who are ethical are at a disadvantage and are increasingly liable to get edged out by those who bend the rules (Garvin, 1986). Some may argue the virtue is its own reward no matter the level of social misfortune and societal derision which accompanies it but most business practitioners would prefer to believe that ethical actions make good economic sense and that virtue will have good consequences (Goodpaster and Matthews, 1982). A poll of self-selected readers of *Nation's* business (1993) showed 86% believed that ethical behaviour and integrity in a company are very important to its financial success, with 11% rating it somewhat important and only 3% rating ethics of little or no importance to financial success. The popular and business press, after heralding the closing of the 1980's as the end of the era of greed, has continued to report on the connection between company profits and their efforts at "green Marketing" and other socially responsible activities. The Council on Economic Priorities and other consumer watchdog groups are rewarding good activities and putting the heat on bad actors through annual awards and press conferences (Newsweek, 1991).

The answer to whether ethical behaviour affects a firm's financial standing cannot be a

Dr. Spuma M. Rao is Associate Professor of Finance, College of Business Administration, University of Southwestern Louisiana. His publications appear in such journals as Global Finance, American Business Review, Financial and Strategic Decision Making, Business and Economic Review, The Appraisal.

J. Brooke Hamilton III is Assistant Professor in the Department of Management, University of Southwestern Louisiana. He was head of the Philosophy Department at Tuskegee Institute, spent 14 years in industry and returned to academe after completing his M.B.A. His work appears in the Journal of Business Ethics, Southeastern Journal of Legal Studies in business, and the proceeding of the Southern and Southwestern Marketing Associations.

simple one because the effects of ethical or unethical behaviour can occur both internally and externally (Wood, 1994). Internally, workers and managers can be affected by ethical or unethical behaviour and can act on the corporation in various ways. The efficiency of production, distribution and exchange functions can all be influenced by the firm's ethical posture (Sen, 1993; Hamilton and Strutton, 1994).

Internally, the law and government regulations can reward ethical behaviour and punish unethical behaviour. Other stakeholders external to the firm can also affect its financial posture. Suppliers, customers and stockholders can react directly through buying and selling activities and their activities can be influenced by the press, local communities and the society. A complete answer to the connection between ethics and financial standing would require the measurement of the effects of ethical or unethical activities on all of these groups.

To provide one part of that answer, this study focuses on the effects of the external controls of ethical behaviour exercised by the financial markets and more specifically by the stock market. The question being asked is whether stockholders will punish unethical behaviour when they become aware of it by driving down the value of the firm's stock.

Literature survey

There is a great deal of literature on the relationship between the ethical behaviour of firms and their financial success (Reidenbach and Robin, 1989; Smith, 1991). The question has been discussed extensively in the debate over corporate social performance (see Wood, 1991 for an extensive review of this area). Approaches to the topic can be generally divided between the conceptual and empirical, with some researchers drawing evidence for their view from both sources. An example of the primarily conceptual approach can be found in the discussions of the Adam Smith revisionists who focus on the supposed conflict between self-interest and ethics in economic behaviour (Sen, 1987; Werhane, 1991; Rothschild, 1992; Solomon, 1993). Sen

(1993) suggests that self-interest and ethics are not mutually exclusive in that self-interest provides the motivation for economic activity but ethics is needed to govern the activities of production and distribution in order that self-interest can be served. Other primarily conceptual approaches attempt to demonstrate a link between profitability in business and particular ethical strategies designed to win the loyalty of various stakeholder groups (Miles, 1993; Garfield, 1992; Bartkowiak, 1993; Dillon, 1991).

Though there is a question as to whether the research is conclusive (Dillon, 1991), there have been a number of empirical studies seeking to demonstrate a correlation between ethical or unethical behaviour and company profitability. A variety of definitions of what constitutes ethical/unethical behaviour or socially responsible behaviour are used and research methodologies vary. Zetlin (1991), for example, finds that profits in 15 Fortune 500 companies that adhered to written ethical principles over 20 years or more grew twice as fast as the rest of the Fortune 500 over a 30 year period. Stoffman (1991) reports on a study of 60 Canadian companies which showed that, within industry groups, those firms that rate the highest on ethics and social responsibility, on a scale based on factors such as labor and customer relations, environmental protection and product safety, show profitability over the long run. Donaldson and Davis (1990) studied companies in the United Kingdom to show a range of benefits for companies beginning a program for the systematic handling of values. Smith's (1992) study of Salomon Brothers concludes that the value of reputational capital is reflected in current stock prices. Anecdotal accounts range from reports on individuals who acted ethically in difficult situations and were successful (Berney, 1987) to those of companies who acted unethically and were not (Lohr, 1992). Rao *et al.* (1993) examined the ethical perceptions of accounting and finance students using head/heart traits developed by Maccoby. Results indicate that finance students are no less ethically inclined than are the accountants. In general head traits dominated over heart traits, an indication that business schools continue to do a good job

emphasizing and development analytical skills but a poor job of developing the qualities of the heart that are generally associated with ethical behaviour.

The efficient Market Hypothesis maintains that the markets are very efficient in interpreting data and arriving at equilibrium security prices. Most empirical studies have found that stock prices reflect publicly available information. If managers are true agents for owners (shareholders), increasing shareholder wealth is an appropriate way to judge managerial behaviour. Negative stock market returns, then, should discourage managers from engaging in unethical behaviour. Are there abnormal reductions in stock market returns following such situations as accusations of bribery, fraud, and illegal political contributions and automobile recalls. If managers acted as true agents to the shareholders, they would not allow their firms to fall into predicaments of ethical compromise.

It is hypothesized that, as a result of unethical behaviour, the expected market adjusted stock returns are negative for the firms and will persist this way for an appreciable period of time. The data needed for calculating the rates of return for the publicly traded firms will be taken from the database Composted. This study will examine the effect of unethical behaviour on shareholder wealth by examining the investor returns on and around the reported date of unethical behaviour. This study tests the timing and adjustment of stock prices to 'unethical conduct' announcements. The null hypothesis to be tested is that the stock market acts quickly and in an efficient manner to public announcements of unethical conduct. If investors could consistently obtain above normal returns by trading after an announcement of unethical conduct, the null hypothesis would be rejected.

Data and methodology

Numerous event studies provide insights concerning the degree of market efficiency. Previously studied events include stock splits, earnings announcements, acquisitions and divestitures, and financial distress. This study

identified a specific development or event that is expected to influence stock prices, and a sample of companies is identified where the "event" has occurred. The event is announcement of unethical conduct reported in the Wall Street Journal during 1989 through 1993. This unethical conduct is broken down into five categories:

1. Bribery, Scandal, Whitecollar crime, Illegal payment
2. Employee discrimination
3. Environmental Pollution – air, or water or environmental cleanup and pollution
4. Insider trading
5. Business ethics

Data analyzed in this study consist of a sample of public announcements of unethical conduct of firms. To be included in the sample, the unethical conduct must be reported in the Wall Street Journal during the 1989–1993 period. Unethical conduct not reported in the Wall Street Journal are excluded from the sample. The sample was obtained from the Wall Street Journal Index. The announcement date of unethical conduct is the date when a report was first published in the Wall Street Journal. To determine event dates accurately and to insulate announcements from other major corporate events around the same period, the corporate history, contained in the Wall Street Journal Index, was reviewed for all firms included in the sample for the period around the announcement of the unethical conduct. Firms with concurrent major corporate events (e.g., takeover bids, leveraged buyouts, or other sell-off and divesting activities) for -1 to $+1$ month relative to the announcement date ($t = 0$) are not included in the final sample. Finally, firms selected for this study have monthly returns in Composted database. The final sample contains 58 firms. Tables I–IV furnish the names of companies, ticker symbols, announcement date of the event and the event category.

Once the event and sample of firms is identified, holding period returns (HPRs) are calculated on a monthly basis, for periods both before and after the event. Forty nine months of HPRs are calculated for each stock in the sample involved in the event study. The 30 earliest observations before the event were used to

TABLE I
Category: Bribery; scandals; white collar crime; illegal payment

Company	Ticker symbol	Announcement date
1. Data general Corp	DGN	10/08/92
2. Fidelity Investment	FNF	06/11/92
3. Solomon Brother Inc.	SBC	08/15/91
4. Consolidated Edison Co.	ED	08/14/90
5. Nynex Corp	NYN	07/12/90
6. Ashland Oil	ASH	05/04/90
7. General Electric Co	GE	06/02/89
8. Northrop Corp	NOC	05/03/89
9. Rite Aid	RAD	04/28/89
10. Merrill lynch & Co	MER	04/11/89
11. Teledyne Inc	TDY	03/23/89
12. Emerson Electric Co	EMR	03/20/89
13. Unisys Corp	UIS	03/09/89
14. Whittaker Corp	WKR	01/31/89
15. General Dynamics Corp	GD	01/18/89
16. Sundstrand	SNS	01/06/89

TABLE II
Category: Employee discrimination

Company	Ticker symbol	Announcement date
1. Shoney's Inc	SHN	01/26/93
2. Nynex Corp's New York Telephone Co	NYN	01/14/93
3. Coca-Cola Foods	KO	09/24/92
4. Albertson's Inc	ABS	05/28/92
5. Digital Equipment Corp	DEC	03/23/92
6. Delta Air Line	DAL	02/14/92
7. Southwestern Bell Corp	SBC	11/04/91
8. IBM Corp	IBM	09/10/91
9. US Air Group Inc	U	07/12/91
10. Coca Cola	KO	12/18/90
11. Precision Castparts Corp	PCP	05/16/90
12. General Dynamics Corp	GD	05/07/90
13. McDonald's Corp	MCD	02/28/90
14. IBM	IBM	02/20/90

estimate the regression parameters of the characteristic line for the stock.

$$r_{j,t} = \hat{\alpha}_j + \hat{\beta}_j r_{m,t} + e_t$$

where

- $r_{j,t}$ estimate of r sub j
 $\hat{\alpha}_j$ estimate of alpha
 $\hat{\beta}_j$ estimate of beta for stock j

$r_{m,t}$ HPR for market index for period t
 e_t residual error in period t

The event under study is defined to occur in month 0 ($t = 0$), then $\hat{\alpha}_j$, $\hat{\beta}_j$, calculated using the above equation, could be used to estimate HPRs for 12 months immediately prior to the event ($t = -12$ to -1) and the seven months ($t =$

TABLE III
Category: Air pollution; water pollution; environmental cleanup; pollution

Company	Ticker symbol	Announcement date
1. Boeing Co	BA	07/02/92
2. Bristol-Myers Squibb Co	BMJ	04/27/92
3. Allied Signal	ALD	01/13/92
4. Louisiana Pacific Corp	LPX	09/10/91
5. Westinghouse Electric Corp	WX	07/30/91
6. Publiker Industries Inc.	PUL	04/26/91
7. Occidental Petroleum Corp	OXY	09/13/90
8. PPG Industries Inc	PPG	05/17/90
9. Bethlehem Steel Corp	BS	04/06/90
10. Unocal Corp	UCL	02/23/90
11. United Technologies Corp	UTX	01/05/90
12. Rockwell International Corp	ROK	06/27/89
13. Dexter	DEX	06/27/89
14. Exxon Corp	XON	03/30/89

TABLE IV
Category: Insider trading

Company	Ticker symbol	Announcement date
1. Gitano Group Inc	GIT	06/17/92
2. Cooper Cos	COO	05/22/92
3. Schering Plough Corp	SGP	04/15/92
4. Pacific Enterprises	PET	03/09/92
5. Nynex Inc	NYN	08/09/91
6. Philip Morris Co	MO	06/11/91
7. Tandem Computers Inc	TDM	03/07/91
8. Saatchi & Saatchi C	SAA	02/15/91
9. BankAmerica Corp	BAC	01/15/91
10. Great Atlantic & Pacific Tea Co	GAP	06/06/90
11. Genentech Inc	GNE	05/04/90

TABLE V
Category: Business ethics

Company	Ticker symbol	Announcement date
1. Morgan Stanley Group	MS	07/04/92
2. Johnson & Johnson	JNJ	05/20/92
3. AT&T	T	04/15/91

0 to 6) after the event, including the month the event occurred. The HPR for each of these 19 months is estimated as

$$r_{j,t} = \hat{\alpha}_j + \hat{\beta}_j r_{m,t} + e_t$$

where

- $r_{j,t}$ estimate of HPR for stock j in period t
- $\hat{\alpha}_j$ estimate of stock j 's alpha
- $\hat{\beta}_j$ estimate of stock j 's beta
- $r_{m,t}$ actual HPR for market index for period t

The error or residual term can be calculated for each period as

$$e_{j,t} = r_{j,t} - \hat{r}_{j,t}$$

The residual is a measure of the *abnormal* performance of stock. If $e_{j,t} < 0$, then the actual HPR is less than the estimated return. This implies that after removing the influence of the market, stock j 's price decreased more than expected. An average residual for each month is calculated using all of the stocks in the sample. The average residual is the average deviation of returns from their normal relationships with the market. For example, assume that n stocks are included in the event study so that the average residual for month $t = -12$ can be calculated as

$$\bar{e}_{t=-12} = \frac{\left[\sum_{j=1}^n e_{j,t=-12} \right]}{n}$$

The above equation is then used to calculate an average residual for each of the 19 months ($t = -12$ to 6). Finally, the average monthly residuals are added together to produce a time series of cumulative average residuals, *CARs*. *CARs* measure the cumulative effects of *abnormal* return behaviour.

$$CAR_t = \sum_{j=1}^{t=6} \bar{e}_t$$

An analysis of the *CARs* for the months prior to and after the event is used to analyze the pattern and speed of the price adjustments to the event. The expected values of *AR* and *CAR* are zero in the absence of abnormal performance. To test the significance of *AR* and *CAR*, average standardized errors (*ASE*) and average standardized cumulative error (*ASCE*) are calculated as

follows:

$$AST_t = \frac{1}{n} \sum_{j=1}^n \frac{e_{j,t}}{S_{j,t}}$$

Where $S_{j,t}$ is the estimated std. deviation of

$$s_{jt} = \left[s_j^2 \left(1 + \frac{1}{D_j} + \frac{(r_{mt} - \bar{r}_m)^2}{\sum_{k=1}^{D_j} (r_{mk} - \bar{r}_m)^2} \right) \right]$$

where

- S_j^2 residual variance for security j from the market model regression,
- D_j number of observations during the estimation period,
- R_{mt} rate of return on the market index for day t of the event period,
- \bar{r}_m mean rate of return on the market index during the estimation period,
- r_{mk} rate of return on the market index for day k of the estimation period.

Assuming cross-sectional independence, ASE_t approaches a normal distribution with zero mean and variance $1/n$. Therefore, the statistic

$$Z_t = \sqrt{n} \times ASE_t$$

is unit normal. Average standard cumulative error is defined as

$$ASCE_{t_1}^{t_2} = \sum_{t=t_1}^{t_2} ASE_t$$

Assuming serial independence, the statistic

$$Z = \frac{\sqrt{n}}{\sqrt{t_2 - t_1 + 1}} \sum_{t=t_1}^{t_2} ASE_t$$

is also distributed unit normal.

Results

Table VI presents results for the behaviour of monthly average abnormal returns for the firms, *ARs* (or Average Residuals) for time intervals prior to and after the Announcement Date ($t = 0$). The first column presents event time in terms of trading months. The second column

TABLE VI
 Monthly Average Abnormal Returns (AR), Cumulative Abnormal Returns (CAR), for the sample of fifty-eight firms for twelve months before and six months after the announcement date (Month Zero)

Month relative to announcement date	AR (%)	Z (%)	CAR
-12	-2.67310	-4.1984***	-2.67310
-11	-1.59162	-3.5124***	-4.26472
-10	-0.24391	-1.4278	-4.50863
-9	-1.29292	-2.9088***	-5.80155
-8	-2.14661	-3.9658***	-7.94816
-7	-1.82873	-3.5668***	-9.77689
-6	-0.50130	-1.6121	-10.27819
-5	-2.76733	-4.0036***	-13.04552
-4	0.25479	1.2655	-12.79073
-3	-0.74689	-2.1429**	-13.53762
-2	-0.37716	-1.7501*	-13.91478
-1	0.19159	0.9380	-13.72319
0	-5.67002	-5.3928***	-19.39321
1	-0.96652	-2.7027***	-20.35973
2	-1.20606	-2.7446***	-21.56579
3	-0.53320	-1.6666*	-22.09899
4	-1.97367	-3.7647***	-24.07266
5	-1.04570	-2.6033***	-25.11836
6	0.40726	1.6085	-24.71110

* Significant at 0.10 level.

** Significant at 0.05 level.

*** Significant at 0.01 level.

contains monthly average abnormal returns (*ARs*) for each month for the fifty eight firms. The third column shows *z*-statistics for monthly average abnormal returns. These statistics, based on average standardized abnormal returns, indicate whether the null hypothesis of zero-average standardized abnormal returns on a given month can be rejected. Finally, the fourth column has *CARs* (Cumulative Average Residuals). The results reveal two interesting points. Much of the total price movement took place in the 12 months before the event (announcement date). In other words, the stock price reacted to the impending news before it became public. In the months before the event, the public becomes suspicious of some one selling large blocks of stock. One interpretation of this pattern is that information is leaking to some market participants who then sell the stocks before the public announcement. At least some abuse of the insider trading rules is occurring.

The dramatic decrease in *CARs* that we see on announcement date indicates that a good deal of these announcements are indeed news to the market and that stock prices did not already reflect complete knowledge about the event. The abnormal return earned for the sample for the announcement date is -5.67%. Average residuals represent abnormal returns to stockholders for the holding period.

The second point is the stock performance after the announcement – from month 0 to month 6. The negative abnormal returns (declining *CARs*) do violate the efficient market hypothesis. By shortselling the affected stocks on an event date, it is possible to profit. This study provides evidence suggesting significant negative stock price movements as a result of the scandal. A trader who heard the public announcement and then traded could still earn a substantial profit. For example, the portfolio of affected stocks yields nearly 6% (19.39% to 25.12%) if

short sold on the event date and short covered five months later.

Table VII presents *ARs* and *CARs* for 58 firms for selected intervals around the announcement date. As shown in Table VII the abnormal return for the month before announcement is +0.1916 percent, which is insignificant. At the announcement date ($t = 0$), the monthly abnormal return is -5.67 percent and is significant. Also the two-month (-1, 0) *CAR* is -5.4784 percent and monthly *AR* for the month after announcement is -0.9665 percent. Both are significant. *CARs* for the different intervals are all negative and significant.

If the market is efficient with respect to these announcements and the market model gives the correct pricing relationship for risk and return, it would be impossible to react to these announcements in a way that gave a supernormal return. Consequently, the conclusion would be that the market is not reacting very efficiently to this type of information and the null hypothesis is rejected.

TABLE VII

Average residual returns and cumulative average residual returns for selected intervals around the announcement date (*Z*-Statistics in parentheses)

	Sample of 58 firms
$CAR_{-5, +5}$	-14.8405 (-3.52)***
$CAR_{-4, +4}$	-11.0272 (-2.89)***
$CAR_{-3, +3}$	-9.3083 (-2.65)***
$CAR_{-2, +2}$	-8.0282 (-2.71)***
$CAR_{-1, +1}$	-6.4449 (-2.69)***
$CAR_{-1, 0}$	-5.4784 (-3.29)***
AR_{-1}	0.1916 (0.94)
AR_0	-5.6700 (-5.39)***
AR_{+1}	-0.9665 (-2.70)***

*** Significant at 0.01 level.

Implications

The results of the study provide definite evidence that social controls by stockholders do work to negatively impact the financial standing of firms when their unethical activity is reported. Since

reporting on their behaviour does have a financial impact on the offending firms, the press may be encouraged to greater diligence in ferreting out instances of unethical behaviour. The Securities and Exchange Commission and stockholder advocacy groups could also use this information to press for greater accountability by managers for unethical conduct since such conduct has a direct and measurable adverse financial impact on stockholders. One area where this concern could be effected is the area of stockholder resolutions seeking to obtain information about company practices or set company policy on ethical issues (Hoch and Hamilton, 1994).

A further benefit of establishing the connection between unethical behaviour and the price of a firm's stock should be to reinforce the concern of managers to insure ethical behaviour by the firm and its employees. This information can be used in corporate training programs to reinforce Kohlberg Level 1 and Level 2 employees to be ethical (Kohlberg, 1976). Employees at Level 1 are primarily motivated to be ethical by fear of punishment and desire for mutual rewards from and for those with whom they interact. The results of this study show that unethical conduct that is discovered can hurt their firm financially and thereby result in losses to themselves and their coworkers. Those Level 2 employees, who are motivated by a desire to conform to group and social norms, can be shown that the loss in stock value follows from the discovery of conduct which is against the laws, regulations and ethical standards of the society.

Employees operating at Kohlberg's Level 3, who are motivated by a concern for moral principles, will be able to factor into their moral considerations the negative effects of publicity of unethical activity. A utilitarian analysis of a possible action which was conventionally considered to be unethical, for example, would have to include the costs to the stockholders and other affected stakeholders of the lower stock price if the activity were discovered. A justice consideration of the possible action would have to ask whether it is fair to burden the stockholders with a loss of value for an action of the managers which is conventionally perceived to be unethical.

Limitations of this study

Only spectacular examples of unethical conduct which have audience interest or social significance will receive publicity (Baron, 1993), so the small day to day acts of unethical conduct which may be almost indistinguishable from ordinary business practice will not be covered by this study. There is no way of knowing what percentage of the actual instances of unethical conduct serious enough to warrant publicity actually are publicized. That is, there is no accurate predictor of the odds of getting caught. Folk wisdom and the experience of those who are caught would indicate that the chances of being caught are high, but no empirical basis for this belief is provided. If such a predictor of the odds of getting caught were available, then this study might have the effect of encouraging ethical behaviour only when calculations showed the risk of being caught to be unacceptable when compared with the predicted gain from the unethical behaviour. It is not possible, given this study, to identify the specific causal factors which operate to lower the value of the stock after publicity appears. Do shareholders sell their stock because of their fear of economic loss resulting from the unethical activity, do they sell in order to express disapproval of the unethical activity or is there selling for both reason?

Future research

It would be interesting to replicate this research for a similar time period in the mid 1980's to see if the prevailing social climate affects the reaction of stockholders to publication of ethical violations. This research would provide some indication of whether the decline in stock value follows from a dislike of unethical behaviour or a fear of economic consequences from legal and regulatory sanctions. It would also be interesting to correlate the results of this study with the imposition of laws or regulations which carry sanctions in a particular class of ethical violations. The purpose of the correlation would be to see if the effects on stock prices were different before and after the imposition of the laws or regulations.

It may be possible to draw conclusions about the motives of stockholders who sell on bad publicity by distinguishing the effects of publicizing unethical activities which cause direct economic losses to the firm from those which are harmful to consumers, competitors or the society at large. For example, do firms which suffer economic losses by being excluded from government contracts for ethical violations fare differently from firms which are publicized for harming the environment or cheating individual consumers but which suffer no great economic losses from these activities. It may also be possible to correlate results the study results with the selling activity of large public pension fund investors such as Calspur to see if they rather than individual investors are responsible for the lowering of the stock value. The study could be broadened to include negative publicity by groups other than the press such as the World Environmental Center or the Council on Economic Priorities or to show whether firms receiving favorable publicity because of ethical or socially responsible activities (as recognized by council on Economic Priorities, for example) experience gains in stock value following the publicity.

Conclusion

The discussion of whether socially responsible or ethical behaviour influences the profitability of companies has received a great deal of attention in the business ethics literature through conceptual and empirical studies. The authors of this study have attempted to add to the empirical evidence supporting a significant connection between ethics and profitability by examining the connection between published reports of unethical behaviour by publicly traded U.S. and multinational firms and the performance of their stock. Using reports of five broad categories of unethical behaviour published in the Wall Street Journal from 1989–1993, the authors were able to show that the actual stock performance for those companies was lower than the expected market adjusted returns. These findings suggest that unethical conduct by firms which are dis-

covered and publicized do have a negative impact on the shareholders of the company by lowering the value of their stock for an appreciable period of time. Whatever their views on whether ethical behaviour is profitable, managers would be able to see a definite connection between unethical behaviour and the worth of their firm's stock. Stockholders, the press and regulators should find this information important in pressing for greater corporate and managerial accountability.

References

- Bartkowiak, J. J.: 1993, 'Trends Towards Part Time Employment: Ethical Issues', *Journal of Business Ethics* **12**(10), 811–815.
- Baron, D. P.: 1993, *Business and Its Environment* (Prentice-Hall, Englewood Cliffs, N.J.), pp. 54–59.
- Berney, K.: 1987, 'The Ethical Edge', *Nation's Business* (Aug.), 18–24.
- Nations Business*: 1993, (Dec.), 85.
- Carr, A.: 1968, 'Is Business Bluffing Ethical?', *Harvard Business Review* **46**, 143–153.
- Donaldson, J. and P. Davis: 1990, 'Business Ethics? Yes, but What Can It Do for the Bottom Line?', *Management Decision* **28**(6), 29–33.
- Dillon, G. C.: 1991, 'Does It Pay to Do the Right Thing?', *Across the Board* **28**(7, 8), 15–17.
- Garvin, D.: 1986, *Study on Productivity* (Harvard Business School, Cambridge).
- Garfield, C. A.: 1992, 'Do Profits and Social Responsibility Mix?', *Executive Excellence* **9**(30), 5.
- Goodpaster, K. and J. Matthews: 1982, 'Can a Corporation Have a Conscience', *Harvard Business Review* **60**, 132–141.
- Hamilton, J. B. III and D. Strutton: 1994, 'Two Practical Guidelines for Resolving Truth-Telling Problems', *Journal of Business Ethics*, **13** in Press.
- Hoch, D. and J. B. Hamilton III: 1994, 'Do Shareholder Resolutions Influence Corporate Ethics?', *Southeastern Journal of Legal Studies in Business* **3**(1), 1–18.
- Kohlberg, L.: 1976, 'Moral Stages and Moralization: the Cognitive-Development Approach', in T. Lickona (ed.), *Moral Development and Behaviour: Theory, Research, and Social Issues* (Holt, Rinehart and Winston, New York), pp. 31–53.
- Lohr, S.: 1992, 'Lessons from a Hurricane: It Pays Not to Gouge', *New York Times* **142** (September 22), D1.
- Miles, G.: 1993, 'In Search of Ethical Profits: Insights from Strategic Management', *Journal of Business Ethics* **12**(3), 219–225.
- Newsweek*: 1991, January 7, 42–43.
- Rao, S. M., C. M. Kochunny and H. Rogers: 1993, 'Ethical Inclinations of Future Financiers' *American Business Review* **XI**(2), June, pp. 69–76.
- Reidenbach, R. and D. Robin: 1989, *Ethics and Profits: A Convergence of Corporate America's Economic and Social Responsibilities* (Prentice-Hall, Englewood Cliffs, N. J.).
- Rothschild, E.: 1992, 'Adam Smith and Conservative Economic', *Economic History Review*, **45**.
- Sen, A.: 1987, *On Ethics and Economics* (Blackwell, Oxford).
- Sen, A.: 1993, 'Does Business Ethics Make Economic Sense?', *Business Ethics Quarterly* **3**(1), 45–54.
- Smith, C., Jr.: 1992, 'Economics and Ethics: The Case of Solomon Brothers', *Financial Management Collection* **7**, 3–8.
- Smith, N. C.: 1991, *Morality and the Market: Consumer Pressure for Corporate Responsibility* (Routledge, New York).
- Solomon, R. C.: 1993, 'Beyond Selfishness: Adam Smith and the Limits of the Market', *Business Ethics Quarterly* **3**(4), 453–460.
- Stoffman, D.: 1991 'Good Behaviour and the Bottom Line', *Canadian Business* **64**(5), 28–32.
- Werhane, P. H.: 1991, *Adam Smith and His Legacy for Modern Capitalism* (Oxford University Press, New York).
- Wood, D. J.: 1991, 'Corporate Social Performance Revisited', *The Academy of Management Review* **16**(4), 691–718.
- Wood, D. J.: 1994, *Business and Society*, 2nd Ed. (Harper Collins, New York), p. 305.
- Zetlin, M.: 1991, 'Ethics and Common Sense', *Management Review* **80**(6), 59.

College of Business Administration,
University of Southwestern Louisiana,
Lafayette, LA 70504,
U.S.A.