

Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.

DISCOURSE ANALYSIS OF CORPORATE CODES OF ETHICS

A thesis presented in partial fulfilment of
the requirements for the degree of

**Doctor of Philosophy
in
Accountancy**

at Massey University, Manawatū
New Zealand

Frances Cho-Kwai Chua

2015

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way - in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only."

*Charles Dickens
A Tale of Two Cities (1859, p. 1)*

ABSTRACT

Ethics has always been an important element in economic activities. Ethical guidelines in the form of values, beliefs, norms, guidelines and rules have been developed over the years to set boundaries for appropriate business behaviour. Although time and context may have changed, the core of ethical problems inherent in business remains. In recent years, increased public concerns about corporate ethics have seen extant ethical rules being codified into formal codes of ethics. As a crucial part of corporate discourse, a code of ethics of an organisation signals its ethical commitment to self-restraint and self-regulation. It is often observed that corporate codes are instituted only after some legitimacy-threatening events and that they are used as a strategy to restore trust and organisational legitimacy.

The impetus for this study arose from a desire to provide an understanding of the discursive role of corporate codes of ethics in (re)claiming public trust and legitimacy in light of increasing challenges to corporate legitimacy. As corporate codes are taken as the basis for discourses designed to provide ethical guidance, they constitute an important means to uphold trust and legitimacy for organisations. The study examines 100 global corporate codes of ethics using a three-level analytical framework based on discourse theory to capture the relationship between the “text” and the “context” of the codes. In the process of discourse analysis, it explores the historical (inclusive of cultural, social, and economic) context of code development (*macro level*), employs institutional theory to interpret the institutional context of corporations (*meso level*), and examines the content/text of the codes (*micro level*) by drawing on Aristotle’s three rhetorical justifications (*logos, ethos, and pathos*) to ascertain how the sample companies persuade their audiences to accept their ethical commitments. There is evidence that the code language employed by the 100 sample global companies is sufficiently persuasive to support the pragmatic, cognitive, and moral legitimising causes. However, it is found that the content of codes is comparatively light in ethical substance as it tends to focus on behavioural constraints specifically designed to address the pressing legitimacy issues and the compliance of rules relating to these constraints.

ACKNOWLEDGEMENTS

Many people have helped to make my research a most rewarding learning experience. In particular, I would like to thank my three supervisors: Professor Fawzi Laswad, Massey University; Professor Asheq Rahman, Auckland University of Technology; and Professor Hector Perera, Professor Emeritus at Macquarie University, Sydney. Without their guidance and support at all stages of the project, the thesis would not have developed into the present form.

I am grateful to Professor Rahman, who encouraged me to pursue doctoral research in corporate codes of ethics and has provided me with valuable suggestions and constructive criticism throughout the course of the project. His enthusiasm and profound interest in research and his faith in me as a researcher have been sustaining forces for my “journey of discovery.” I am very much indebted to Professor Perera who, as my mentor and friend of many years, has helped me to develop the necessary skills in logical thinking, theory development, and language refinement. His patience and unwavering support have been invaluable to the development of my thesis. I am grateful to Professor Laswad for his insightful criticism and the different perspective he brought to the project. I would also like to express my gratitude for the financial support provided by the School of Accountancy toward research assistance of the project.

My thanks also extend to my friends and colleagues at the School of Accountancy for their friendship and encouragement for my research endeavour.

Finally yet importantly, I am especially grateful to have the unconditional support of my family. They have always been a continual source of inspiration and encouragement for my efforts.

TABLE OF CONTENTS

	Page
Abstract	i
Acknowledgements	ii
Table of Contents	iii
List of Tables	vii
List of Figures	viii
Appendices	viii
CHAPTER 1 OVERVIEW OF THE RESEARCH PROJECT	
1.1 BACKGROUND TO AND PURPOSE OF THE RESEARCH	1
1.2 AIM AND OBJECTIVES OF THE RESEARCH	6
1.2.1 The <i>macro</i> level (the broad social context)	6
1.2.2 The <i>meso</i> level (the specific context)	7
1.2.3 The <i>micro</i> level (the genre of the text and the audience)	7
1.3 RESEARCH METHODOLOGY	7
1.3.1 Theoretical orientation	7
1.3.1.1 Institutional theory	8
1.3.1.2 Discourse theory	8
1.3.1.3 Other sources of literature.....	9
1.3.2 Methodological approach.....	10
1.3.2.1 Discourse analysis	10
1.3.2.2 Rhetorical analysis.....	11
1.4 IMPORTANCE OF THIS RESEARCH.....	12
1.5 ASSUMPTIONS AND SCOPE.....	14
1.5.1 Assumptions	14
1.5.2 Scope of the project.....	15
1.6 STRUCTURE OF THESIS.....	15
1.7 CHAPTER SUMMARY	18
CHAPTER 2 EVOLUTION OF CORPORATE MORAL RULES	
2.1 INTRODUCTION	19
2.2 THE HISTORICAL ROOTS OF BUSINESS ETHICS	22
2.2.1 Religious perspective	23
2.2.2 Philosophical perspective.....	25
2.2.3 Economic perspective	29
2.3 THE MORAL BASIS OF CAPITALISM	33
2.3.1 The ethical underpinnings of Adam Smith’s model.....	34
2.3.2 Ethics and self-interest – The “moral paradox” of capitalism.....	37
2.4 THE BUSINESS ETHICS MOVEMENT	40
2.4.1 “Movement” defined.....	40
2.4.2 The goal.....	41
2.4.3 Activities and contributors supporting the movement	43
2.5 THE EMERGENCE OF CORPORATE CODES OF ETHICS.....	46
2.5.1 The importance of business values.....	48
2.5.2 The development of corporate codes.....	49
2.6 CHAPTER SUMMARY	53

CHAPTER 3 TRUST AND ETHICS IN MODERN ECONOMIES

3.1	INTRODUCTION	57
3.2	THE NATURE OF TRUST	59
3.2.1	The characteristics of trust	60
3.2.2	Perceived attributes of the trustor.....	62
3.2.3	Perceived attributes of the trustee	63
3.2.4	Factors influencing trusting relationships	65
3.3	THE BREAKDOWN OF TRUST	69
3.3.1	A new culture of capitalism	71
3.3.2	The pursuit of self-interest in business.....	73
3.3.3	The role of accounting and finance	75
3.3.4	The impact on trust relations	77
	3.3.4.1 The trustee – the culprit?	77
	3.3.4.2 The trustor – the victim?	79
3.4	TRUST AND ETHICS IN BUSINESS	81
3.4.1	The morality of business	83
3.4.2	The link between ethics and trust.....	84
3.4.3	The ethical limits of trust	87
3.5	RETHINKING THE NEED FOR TRUST	88
3.5.1	Organisational change	90
3.5.2	Complexity of market dynamics	91
3.5.3	New perspective of agency relationships	92
3.5.4	Mechanisms to engender trust.....	94
3.6	CHAPTER SUMMARY	95

CHAPTER 4 AN INSTITUTIONAL PERSPECTIVE OF THE PREVALENCE OF CORPORATE CODES OF ETHICS

4.1	INTRODUCTION	97
4.2	PREVALENCE OF CORPORATE CODES OF ETHICS	100
4.2.1	The geographical spread.....	100
4.2.2	The role of corporate codes	102
4.2.3	Code functions	104
4.3	MOTIVATIONS FOR CODE ADOPTION	106
4.3.1	Exogenous forces	107
4.3.2	Endogenous forces	108
4.3.3	The exogenous-endogenous connection.....	110
4.4	AN INSTITUTIONAL INTERPRETATION OF CORPORATE CODE ADOPTION	111
4.4.1	The institutional perspective	111
4.4.2	Institutional isomorphism applied to corporate codes of ethics	114
4.4.3	Institutional pressures, conformity, and legitimacy	116
	4.4.3.1 Pragmatic legitimacy by coercive isomorphism	117
	4.4.3.2 Cognitive legitimacy via mimetic processes.....	121
	4.4.3.3 Normative legitimacy through normative processes.....	124
4.4.4	Ceremonial structures.....	127
4.5	CHAPTER SUMMARY	132

CHAPTER 5 RHETORICAL ANALYSIS OF CORPORATE CODES OF ETHICS

5.1	INTRODUCTION	135
5.2	INSTITUTIONAL CHANGE, LEGITIMACY, AND RHETORIC	138
5.2.1	Link between institutional change and legitimacy	138
5.2.2	Link between legitimacy and rhetoric	141
5.3	THE RHETORIC OF CORPORATE CODES OF ETHICS	144
5.3.1	Prior studies on corporate code rhetoric	148
5.4	RESEARCH METHODOLOGY	153
5.4.1	Rhetorical analysis as research methodology	153
5.4.1.1	Rhetorical strategies	157
5.4.1.1.1	<i>Logos</i>	158
5.4.1.1.2	<i>Ethos</i>	158
5.4.1.1.3	<i>Pathos</i>	159
5.4.1.2	The rhetorical situation	160
5.4.1.3	Stylistic pillars	161
5.5	RESEARCH DESIGN	163
5.5.1	Sample collection	163
5.5.1.1	The samples	163
5.5.1.2	The codes	165
5.5.2	Research instrument	166
5.5.2.1	Data collection	166
5.5.2.1.1	Human coding	167
5.5.2.1.2	Coding frame	167
5.5.2.2	Inter-coder reliability and pilot study	170
5.5.3	Framework of analysis	172
5.5.3.1	The ideational function	174
5.5.3.2	The interpersonal function	175
5.5.3.3	The textual function	176
5.6	CHAPTER SUMMARY	178

CHAPTER 6 DISCUSSION OF RESULTS AND FINDINGS

6.1	INTRODUCTION	181
6.2	BASIC FEATURES OF THE CODES	183
6.2.1	Code adoption	183
6.2.2	Code prevalence	185
6.2.3	Year of adoption	186
6.2.4	Code format, length, and title	187
6.3	A THEMATIC CONSIDERATION OF CODE CONTENT	188
6.3.1	Generality	189
6.3.2	Values and commitments	190
6.3.3	Workplace conduct	191
6.3.4	Responsiveness to stakeholders	192
6.3.5	Compliance and implementation	193
6.3.6	Tone and style	194

	Page
6.4 A RHETORICAL ANALYSIS OF THEMATIC CONTENT OF CODES	197
6.4.1 Corporate codes as a means to attain organisational legitimacy	198
6.4.1.1 Pragmatic legitimacy perspective	199
6.4.1.1.1 Issue-driven	200
6.4.1.1.2 Compliance-focused	202
6.4.1.1.3 Stakeholder appeasement	204
6.4.1.2 Moral legitimacy perspective	206
6.4.1.3 Cognitive legitimacy perspective	209
6.4.2 Corporate codes of ethics as a persuasive discourse	213
6.4.2.1 Appeal to reason (<i>logos</i>)	214
6.4.2.2 Appeal to authority (<i>ethos</i>)	216
6.4.2.3 Appeal to emotion (<i>pathos</i>)	218
6.4.2.4 From persuasive to authoritarian position	221
6.5 CHAPTER SUMMARY	224

CHAPTER 7 CONCLUSIONS

7.1 INTRODUCTION	229
7.2 SUMMARY OF THE STUDY	229
7.3 MAIN FINDINGS	233
7.4 IMPLICATIONS OF THE FINDINGS	237
7.4.1 For ethics researchers	238
7.4.2 For historians	238
7.4.3 For corporations/managers	239
7.4.4 For policy makers	240
7.5 CONTRIBUTION OF THE RESEARCH PROJECT	241
7.5.1 Theoretical contributions	241
7.5.2 Methodological contributions	243
7.5.3 Organisational contributions	244
7.6 LIMITATIONS OF THE STUDY	244
7.7 SUGGESTIONS FOR FUTURE RESEARCH	245
7.8 FINAL REMARKS	246

REFERENCES	247
-------------------------	------------

APPENDICES	269
-------------------------	------------

LIST OF TABLES

		Page
Table 2.1	The Evolution of Business Ethics in Western Countries – A Conceptual View	47
Table 3.1	The Nature of Trust	61
Table 3.2	Taxonomies of Trust – Different Perspectives	67
Table 4.1	Basic Concepts of Institutional Theory	114
Table 5.1	Status of Code Adoption – Geographic and Industry Distribution	164
Table 5.2	Research Instrument – Coding Frame	169
Table 6.1	Industry Classification and Market Capitalisation	184
Table 6.2	Generality	189
Table 6.3	Values and Commitments	190
Table 6.4	Workplace Conduct	191
Table 6.5	Responsiveness to Stakeholders	193
Table 6.6	Compliance and Implementation	194
Table 6.7	Tone and Style	195
Table 6.8	Excerpts from CEO/Chairman Statements	217
Table 6.9	Correlations – Comprehensiveness, Comprehensibility and Comprehension Aids	221
Table 6.10	Rhetorical Strategies and Legitimacy in the Institutionalisation of Corporate Codes	224

LIST OF FIGURES

		Page
Figure 1.1	Structure of the Thesis.....	15
Figure 2.1	The Roots of Business Ethics.....	22
Figure 3.1	The Nature of Trusting Relationships	69
Figure 4.1	Corporate Isomorphic Change – The Legitimacy Pursuit	99
Figure 4.2	The Institutionalisation of Corporate Codes of Ethics	130
Figure 5.1	Rhetorical Analysis of Corporate Codes of Ethics.....	138
Figure 5.2	Rhetorical Analysis – Stages of Development	166
Figure 6.1	Code Prevalence by Country	185
Figure 6.2	Year of Code Adoption	186
Figure 6.3	Broad Content Categories of Corporate Codes	197

APPENDICES

Appendix 5.1	Rhetorical Data.....	269
Appendix 5.2	Research Instrument – Coding Frame (Complete Set).....	271

CHAPTER 1

OVERVIEW OF THE RESEARCH PROJECT

1.1 BACKGROUND TO AND PURPOSE OF RESEARCH

Corporate codes of ethics have increasingly become the norm for companies¹ to define the parameters of their ethical behaviour. The trend of corporate code adoption appears to be increasingly widespread due to the convergence of four social phenomena: globalisation of economies, advancement in mass communications, increase in corporate scandals, and the growing interest in issues of business ethics. Concerns about ethics have grown as economic activities particularly in advanced capitalist economies become more complex. Supported by efficient mass communications systems, global development of the market economy has seen more nation-states adopting the capitalist model (the neo-classical economic model purportedly introduced by Adam Smith) pursued successfully by the advanced economies (Cragg, 2005). While the neo-classical economic model has been considered the enlightenment of the capitalist spirit and the provider of social good, it has also become the centre of attention for both the right and the wrong reasons (Arnold, 2009). The adoption of the capitalist system has indeed improved the general quality of life for many countries; however, there is growing concern about the ethical environment in which modern economic activities take place due to the rise in individualism or more specifically, self-interest of the market participants.

Ethics has always been an important consideration in the social fabric and the moral basis of economic activity. The growth and success of capitalist pursuits have, however, been tainted by the frequent occurrences of corporate misconduct. Business violations are not new. Over the years, outbreaks of financial crises and scandals have provided ample evidence of the ethical lapses in corporate demeanour (Ciulla, 2011). In the era of instant communications, these incidents of misconduct have become ideal grist for the inquisitive mass media mill, whose instantaneous reporting has heightened society's sensitivities to, and condemnation of unethical practices in the business world (Ball, 2009). Pressures from investors, consumers, regulatory agencies, and all other interest groups have fuelled widespread public sentiments about the right and the wrong of

¹ Terms such as "company," "corporation," "organisation," and "firm" are used interchangeably in this thesis.

business behaviour. These have, in turn, intensified the breakdown in public trust, raised societal expectations, and increased the demands for greater accountability. In view of the relentless competitive pressures, economic downturns, ethical scandals, environmental decline, and geopolitical uncertainty, questions have been raised about “the role of social norms, morals, ethics, corporate governance, incentive-based compensation, emphasis on short-term profits, audit committees, audit standards, securities laws, and regulatory oversight” (Ball, 2009, p. 278). Because the financial and emotional ramifications of these incidents are extensive, calls for ethics reforms have become a recurring phenomenon to (re)build trust.

Confronted with criticisms of unethical practices and accusations about self-interest and opportunism, the business community has suffered huge damage to its reputation and plunged into a legitimacy crisis (Berd, 2010; Long & Driscoll, 2008; Newberg, 2005). Organisational legitimacy is a social construct subjectively perceived and ascribed to an organisation’s actions and outcomes (Dowling & Pfeffer, 1975; Suchman, 1995). To be perceived as legitimate, an organisation’s actions must be “desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, p. 574). Legitimacy is therefore vital for an organisation’s survival, as it attracts resources and the continued support from its constituents (Ashforth & Gibbs, 1990). In response to high public expectations of business conduct to control and prevent (further) damage to their organisational legitimacy, many corporations have taken the initiative to resolve perceived problems to regain public confidence by presenting themselves as entities of integrity and trust (Caldwell & Clapham, 2003). The emergence of a broad business ethics movement in the 1970s was recognition of the significance of a moral dimension in matters of business. Two salient features of the movement were the development of business ethics as a distinct field of study and the institutionalisation of corporate codes of ethics.² The establishment of business ethics as a field of inquiry offers a forum to discuss the moral order of the extant economic system and the institutions upon which it is founded, in addition to providing a venue for some fundamental assessments of all areas of business and financial practice to improve corporate governance (Arnold, 2009). The general interest in business ethics has stimulated immense research interest in the subject matter manifested in the build-up of a

² This comprises codes of ethics, codes of conduct, and other codified documents related to ethical demeanour. In this thesis, it is sometimes referred to as corporate codes.

voluminous business ethics literature much enriched by contributors from diverse disciplines other than business (for instance, philosophy, psychology, sociology, organisation studies, education, and others) (Ciulla, 2011; De George, 1987, 1989, 2006; Vogel, 1991).

Many codes of ethics are said to be instituted only after a public scandal or an internal investigation of questionable behaviour (Newberg, 2005). With the contemporary global era emphasising a strong focus on corporate accountability, there are intense pressures for the business community to exercise self-control. Corporate codes of ethics are therefore regulatory institutions of accountability used by the corporations to legitimate themselves within their institutional field (Ezzamel, Robson, Stapleton, & McLean, 2007). Over time, the codes have become largely taken-for-granted norms articulating institutionalised actions relating to the values, principles, visions, and commitment of the corporations. They form part of corporate discourse to manage public perception by demonstrating that organisational practices are congruent with societal values, norms, and beliefs (Dowling & Pfeffer, 1975).

Such a phenomenon constitutes an interesting context to examine the role of discourse as the “carrier” of institutions and institutional change to (re)claim legitimacy (Greenwood, Suddaby, & Hinings, 2002; Phillips, Lawrence, & Hardy, 2004). More specifically, it provides the setting to consider how corporations and their management use corporate codes as the means to persuade audiences that they are (re)aligning their actions with social norms and rules in constructing legitimacy. Discourse, in general terms, refers to actual practices of talking and writing. Specifically, it is an interrelated set of texts, and the practices of their production, dissemination, and reception that bring an object or worldview into being (Fairclough; 2003; Johnstone, 2008; Karlberg, 2012; Paltridge, 2012; Phillips & Hardy, 2002). Corporate code of ethics is one of the most significant business phenomena in recent time. It is a culturally embedded discourse “consisting of the texts produced, disseminated and interpreted by a set of social actors in a social situation” (De Cock, Fitchett, & Volkmann, 2005, p. 38). Analysis of this discourse can help to explore the practices that social actors engage in to produce texts and the way that writing practices gain their meanings and functions as dynamic elements of specific cultural setting (Bazerman & Prior, 2004). Rhetoric, as a field of discourse, can foster a critical reading of texts that “would persuade others of an argument, establish the ethos

(credibility and status) of the rhetor, or create a feeling that would incline others toward certain views and actions” (Bazerman & Prior, 2004, p. 2).

The impetus for this study arose from a desire to provide an understanding of the discursive role of corporate codes of ethics in (re)claiming public trust and legitimacy in light of the increasing global challenges to corporate legitimacy. Corporate codes are a type of discourse produced in written form. As a discourse, it has a specific way of representing a particular aspect of social life and is known to be able to control organisational audiences’ perception/impression of the organisation (Fairclough, 2003). Analysis of discourse helps to understand the shaping of social reality through language. It allows the researcher to enter into the dynamic unfolding of situations and events to observe what people do with language in special social settings (Potter, 1997, p. 146, cited in Alvesson & Kärreman, 2000, p. 127). Simply put, it helps to look at patterns of language across texts as well as the social and cultural contexts in which the text occur (Paltridge, 2012).

A review of the business ethics literature shows that the research on corporate codes of ethics tends to focus on a number of themes. First, it ascertains the *status quo* of code development (see De George, 1989; Drover, Franczak, & Beltramini, 2012; Stevens, 1994; Weaver, 1993; White & Montgomery, 1980). Second, it looks at the various reasons of developing the codes, for example, responding to external pressures, formal public document providing the rules of conduct to insiders, and a communication tool to external parties about corporate ethical practice (see Kaptein, 2004; Long & Driscoll, 2008; Wright & Rwabizambuga, 2006). Third, it describes and/or compares the content of the codes, for example, inspirational statements, and prescriptive statements specifying the acceptable or unacceptable rules for target audiences (see Langlois & Schlegelmilch, 1990; Wood & Rimmer, 2003). Fourth, it tries to ascertain the effectiveness of codes, for example, whether the codes have achieved their stated purposes of improved ethical behaviour (see Kaptein & Schwartz, 2008; Singh, 2011; Stevens, 2008). Finally, it presents some comparative studies of codes, for example, inter-firm studies and cross-cultural studies (Langlois & Schlegelmilch, 1990; Singh, Carasco, Svensson, Wood, & Callaghan, 2005; Wood, 2000).

These perspectives of the business ethics literature have enhanced our understanding of the prevalence of corporate codes of ethics; however, it is not sufficiently insightful in explaining the discursive role of the corporate codes in organisational legitimacy construction. Some prior research has examined the issue of organisational legitimacy using codes of ethics or other related corporate discourse. For example, Long and Driscoll (2008), and Holder-Webb and Cohen (2012) have employed different aspects of institutional theory to explain the role of codes of ethics as institutionalised organisational structures that extend some form of strategic and mimetic legitimacy to organisations. Beelitz and Merkl-Davies (2012) have addressed the issue of organisational legitimacy focusing on the language use of a German CEO with regard to a legitimacy-threatening event to the company. Wright and Rwabizambuga (2006) have examined why financial institutions adopted codes to strengthen their corporate reputation and organisational legitimacy. Farrell and Farrell (1998) have conducted a linguistic analysis (a branch of discourse analysis) of five Australian corporate codes of ethics to highlight the importance of the language used in the codes to restrict or empower the addressees. Stevens (2009) has conducted a rhetorical analysis of the Lehman Brothers Code to highlight that there are hidden messages in corporate codes. In the same vein, Pollach (2003) has employed a functional approach to discourse analysis to explore how companies communicate their ethical stance on their websites.

While there is consensus that corporate codes are frequently used by corporations as public relations tools to present themselves as ethically concerned organisations, the language of corporate codes as a communication strategy to ensure organisational legitimacy seems to be relatively unexplored. As highlighted by Phillips et al. (2004, p. 635), most institutional research on corporate codes has tended to “focus on the effects rather than the process of institutionalization.” As such, a discourse analysis on the relationship of the language/texts of corporate ethics and the process of institutionalisation could help to fill this research gap. It could provide some insights into not only the contents of codes, but also the “trajectories: where texts emanate from, how they are used by organizational actors, and what connections are established among texts” (Phillips et al., 2004, p. 646). This has provided the underpinning for the current study.

1.2 AIM AND OBJECTIVES OF THE RESEARCH

The aim of this research project is to examine the discourse of corporate codes of ethics to unravel the discursive strategies adopted by corporations to restore trust³ and construct organisational legitimacy. Particular focus is on the relationship between discourse and social reality, that is, the interplay between text and context in the institutionalisation process.

It has been noted that, due to repeated business ethics scandals, the business community particularly the businesses with a global reach have been facing serious criticism because of their failure to meet public expectations of good corporate citizenship. It has been highlighted that an increasing number of corporations have taken the initiative to meet increasing stakeholder demands for accountability by producing codes of ethics to attain or restore public trust and hence corporate legitimacy. Despite the voluminous literature on corporate codes of ethics, there is a research gap in the discursive study of dynamic cultural settings of the language of corporate codes and its institutionalisation process.

To achieve the stated aim, the study has five specific objectives grouped under three levels of analysis: the *macro* level, the *meso* level, and the *micro* level. This framework of analysis helps to illustrate the interrelationship between the text and the context of corporate codes through an examination of patterns of code language across texts and the relationship between language and the social and cultural contexts in which it is used (Paltridge, 2012). It ensures that the texts are made meaningful by “connecting the texts to discourses, locating them in a historical and social context” by referring to “particular actors, relationships, and practices that characterise the situation under study” (Phillips & Hardy, 2002, p. 4).

1.2.1 The *macro* level (the broad social context):

- To trace the historical roots of corporate codes with particular emphasis on some of the criteria extant society uses to evaluate the ethics of business.
- To examine the important roles played by business ethics and trust in contemporary global economy.

³ “Restore trust” is a generic term used in this thesis to reflect the need to repair, build, or maintain trust due to public perception of the decline of trust in business.

1.2.2 The *meso* level (the specific context):

- To establish an appropriate theoretical framework that can provide insights into the specific context of corporate code disclosure to help to explain why corporations adapt to changes in the institutional environment in which they operate.

1.2.3 The *micro* level (the genre of the text and the audience):

- To identify a suitable methodology and associated methods to analyse the process of code institutionalisation and to ascertain the strategies corporations used to attain or restore trust and organisational legitimacy.
- To test empirically and rhetorically the propositions drawn from the selected theoretical and methodological frameworks the strategies corporations used to attain or restore trust and organisational legitimacy.

1.3 RESEARCH METHODOLOGY

To achieve the stated aim and objectives, this study uses a discourse analytic framework to better understand how institutions such as corporate codes of ethics are produced and maintained. It is argued that a discourse analysis of the process of institutionalisation helps to highlight the critical role of code discourse in corporate legitimacy construction. The development of such a framework is explained in the following sections.

1.3.1 Theoretical orientation

In view of the complexity of the issue, this thesis employs two theories – institutional theory and discourse theory – as the means to achieve the stated aim and objectives. Institutional theory, with its focus on institutional isomorphism and legitimacy, provides the theoretical underpinning of the thesis in light of corporations' pursuit to (re)gain trust and legitimacy. Discourse theory, with its assumption that “discourse is shaped by the world, and discourse shapes the world” (Johnstone, 2008, p. 10), provides a heuristic⁴ for exploring, in a systematic way, how a text or a set of texts impact on people and their interactions. Thus discourse theory complements institutional theory by expounding the role of discourse (language) in the institutionalisation process.

⁴ A heuristic is a set of discovery procedures for systematic application or a set of topics for systemic considerations (Johnstone & Eisenhart, 2008, p. 11).

1.3.1.1 Institutional theory

Institutional theory explains how organisations respond and adapt to their institutional contexts. There are many variants of institutional theory. This thesis employs the variant “neo-institutional theory” popularised by Meyer and Rowan (1977), DiMaggio and Powell (1983), Scott (1995), Suchman (1995), and many others. The thesis refers to it as “institutional theory” throughout the discussion. In the institutional perspective, the environment is seen as providing a shared view of what organisations should look like and how they should behave (Meyer & Rowan, 1977). When environments have many rules and expectations to which organisations must conform in order to receive needed legitimacy, institutional theory is a useful point of departure for depicting the organisation’s practices in social conformity (DiMaggio & Powell, 1983; Scott, 1995; Suchman, 1995) as it explains the institutional pressures that lead corporations to produce codes of ethics.

1.3.1.2 Discourse theory

Since a code of ethics is a written language-centred institutional practice, it is pertinent to analyse the role of code language in the institutionalisation process so as to attain a better understanding of the direct relationship between language/cognition and actions of actors in certain social context. Discourse theory is deemed an appropriate theory to enhance the understanding of how language, as a socially constructing agent, can help to shape or structure human thought and action in this process. It studies the use of language for communication in context. It has in recent years established itself as a highly influential framework for inquiry and analysis encompassing a diverse set of insights, assumptions, and concepts that have emerged across a range of disciplines, in particular, from the “linguistic turn” in the humanities and social sciences (Alvesson & Kärreman, 2000; Fairclough, 2003; Howarth, 2000; Johnstone, 2008; Karlberg, 2012; Paltridge, 2012; Phillips & Hardy, 2002).

Discourse theory is a rapidly expanding field which is characterised by proliferating analytical methods and continuously renewed tools (Georgakopoulou & Goutsos, 2004). Within its broad theoretical framework, diverse approaches to inquiry can be identified, for instance, analysing discrete or isolated texts or bodies or systems of texts; or expanding the analysis to include contextual factors such as the institutional arrangements and historical circumstances surrounding the production, dissemination,

and reception of texts with the possibility of including the relative emphasis on: *macro*, *meso*, and *micro* levels of analysis (Howarth, 2000; Karlberg, 2012). The former provides a more textually oriented view (focusing on linguistics) while the latter can be a socially-oriented view extending the text to social and cultural setting in which the text occurs and/or a social constructionist view exploring the role of the text in constructing certain views of the world (Paltridge, 2012). Since the current study aims to unravel the discursive role of corporate codes of ethics to (re)gain trust and legitimacy, it favours the latter approach with its theoretical underpinnings of linking text to context to explain the institutionalisation of corporate codes.

At the broader level, this approach allows the researcher to explore how the text of the specific code discourse has been impacted upon by the external factors (the social, economic, and cultural influences) and, in turn, how the discourse gives meaning and substance to other economic, social, and cultural activities. At the local (more confined) level, it allows the researcher to explore how the discourse makes certain practices possible or inevitable and how it empowers and disempowers different identities. In this respect, it also allows the researcher to investigate into how particular actors use the discourse to legitimate their positions and actions. In a nutshell, discourse theory provides the theoretical grounding for the discourse analyst to draw conclusions about how the discourse (in confluence with other discourses) shapes a particular reality or worldview (Johnstone, 2008; Johnstone & Eisenhart, 2008; Paltridge, 2012; Phillips & Hardy, 2002).

1.3.1.3 Other sources of literature

In light of the social, economic, and historical contexts of the corporate codes, it is necessary to conduct a comprehensive literature review in various disciplines, namely, business ethics, trust, management, and organisation studies to develop the conceptual components of the research. The business ethics literature and the trust literature (including the relevant literature in accounting and management) have provided a wealth of information in three interrelated areas: the history of business values, the decline in business ethics and trust, and the surge in interest in business ethics. They helped to establish the broad *macro* context of corporate codes of ethics – the historical, economic, political, and cultural environments leading to the development of business principles and the prevalence of corporate codes. This formed the *macro*-level context of discourse

analysis.

As an extension of the information collected on the broad social context of code prevalence, the organisation studies literature and in particular, the institutional theory literature, has provided another rich source of information to strengthen the choice of institutional theory as the theoretical framework to explain the institutional pressures that led corporations to produce codes of ethics. Institutional theory provided the theoretical underpinnings to formulate propositions to explain the trend of code adoption. It provided insights into the extant institutional environment of corporations and the forces that propelled corporate isomorphism, the *meso*-level context of the study. Such a review has helped to produce a structured contextual analysis of the historical roots of corporate codes of ethics (Chapter 2), the importance of trust and ethics in modern economies (Chapter 3), and the significance of institutional theory to explain the underlying reasons for code adoption in contemporary business (Chapter 4). Together, they provided the contextual background for the textual analysis in Chapters 5 and 6 (content analysis and rhetorical analysis of the collected data to test the validity of the normatively derived propositions).

1.3.2 Methodological approach

Two key methods, discourse analysis and rhetorical analysis, are used in the textual analysis of the sample corporate codes within the institutionalisation process. Details of the two methods are explained in the following sections.

1.3.2.1 Discourse analysis

As mentioned earlier, *discourse theory* has a social constructivist epistemology (Phillips & Hardy, 2002) and provides a heuristic for systematic exploration of language in its social and cultural contexts. *Discourses* are embodied and enacted in a variety of texts. However, texts are not meaningful by themselves. They only derive and acquire meaning through their interconnection with other texts or discourses, and the nature of their production, dissemination, and consumption (Phillips & Hardy, 2002). *Discourse analysis* offers ways of seeing texts and textual practices with greater clarity. Through a careful examination of the details of language and its basic modes of representation, production, reception, and distribution, discourse researchers are able to learn about *what*

texts do and *how* texts mean in addition to *what* they mean (Bazerman & Prior, 2004). It explains how one knows the social world, as well as a set of methods for studying it.

This thesis employed discourse analysis as the key method to explain the institutionalisation of corporate codes of ethics. It used a three-level (*macro*, *meso*, and *micro*) framework of analysis to examine the broader contextual factors (historical and social contexts) (*macro* and *meso* analyses) and the text (*micro* analysis) of the codes. To provide a critical analysis of the text, rhetorical analysis (a variant of discourse analysis) was employed to interpret the meaning of text by relating the text to the context (situation and environment).

1.3.2.2 Rhetorical analysis

Rhetorical analysis is a method for examining “how people within specific situations attempt to influence others through language” (Selzer, 2004, p. 281). According to Selzer (2004), it is a “critical reading” of the text and its context to “understand how particular rhetorical episodes are persuasive” (p. 281). This method is the suitable method to strengthen the *micro*-level analysis of both institutional theory and discourse theory through an analysis of the rhetorical appeals as means for legitimating and justifying the adoption of corporate codes of ethics in modern economies.

The first phase of *micro*-level analysis (textual analysis) involved a document study of 100 corporate codes of ethics⁵ and ethics-related material/publications⁶ drawn from the list of 100 top global companies published by PricewaterhouseCoopers (PwC) in 2014. A systematic content analysis was conducted to collect some relevant code information for interpretation. Employing the “meaning orientated” (subjective) approach of the content analysis method (Krippendorff, 2013; Smith & Taffler, 2000), it focused on identifying and categorising the thematic patterns in the content of the codes. It was not strictly mechanical counting but in a more interpretive form with a view to connecting textual content to broader discursive contexts (Phillips & Hardy, 2002) for later rhetorical analysis.

⁵ This included corporate codes of ethics, codes of conduct, and codes of various titles.

⁶ These were sourced from the “corporate governance” section of the annual reports, or the Corporate Social Responsibility Reports.

The second phase of textual analysis involved rhetorical analysis,⁷ a variant of discourse analysis, to interpret the content and the language use of the categorised information collected from the content analysis of the corporate codes of ethics. Rhetoric, a variant of discourse, is an art of using language, oral or written, as a means to persuade. It is a means of communication that has general designs on people's values, action, attitudes and beliefs (Selzer, 2004). Rhetorical analysis is a kind of critical reading which provides "a means of examining communicative practice so as to uncover signs of social identities, institutions, and norms as well as the means by which these social formations are established, negotiated, enacted, and changed through communicative practice" (Bazerman & Prior, 2004, p. 3). It could provide a richer texture as this interpretive analysis aimed to ascertain the hidden messages conveyed in the thematic narratives of the codes. The analysis focused on determining the underlying meaning of the thematic units in terms of the rhetorical strategies (persuasive language employed) to achieve organisational legitimacy. This investigation also helped to test the validity of the propositions on the intent of code disclosure/language and explain the link between code disclosure and institutional change. It was a critical reading of corporate communication with a view to understanding how corporations and their managers attempt to address the issues of ethics, trust, and legitimacy.

1.4 IMPORTANCE OF THIS RESEARCH

This research is of value to the existing body of knowledge in the following ways:

1. It extends current knowledge in the general field of business ethics. In particular, it will provide some insights into the complexities of the discourse of corporate codes of ethics. A review of the business ethics (including code of ethics) literature revealed that there was no extant theory which provided a satisfactory explanation of the discursive role of corporate codes of ethics. In achieving its aim and objectives, the present study advances the discursive role of corporate codes.
2. The study does not solely examine the structure of corporate codes but provides a historical, philosophical, and institutional explanation of the current state of codes. Business has a long history and has been viewed as an interdisciplinary study for over five hundred years (Wren, 2000). Codes of ethics therefore could not be fully

⁷ This methodology is examined in more detail in Chapter 5.

understood without relating to its historical, cultural, and institutional context.

3. Business ethics issues are important because ethics is closely entwined with trust, which is crucial to the viability of business and economic activities. As objects of public scrutiny, global companies need to show some ethical initiatives to ensure public confidence in their functioning.
4. The study shows the significance of institutional pressures in organisational legitimacy. As highlighted by institutional theorists, institutional isomorphism is vital for corporations to show social conformance, which is essential to their survival. Code adoption may signify ethics commitment as a basis to promote trust. However, this ethics mandate must be fostered within a proper accountability and governance framework agreeable to the public.
5. The study also has the potential to enhance understanding of the determinants of the ethical decision-making of companies operating in an ever-changing environment. A decision model structured from institutional theory may have implications for regulators and policy makers in terms of the “hidden messages” of corporate ethical disclosures. The research is timely in light of recent corporate collapses and the call for better ethics as the basis of improved corporate governance.
6. The study has the potential to make a methodological contribution using discourse analysis to provide a better understanding of the evolutionary process of corporate code disclosure. Rhetorical analysis also contributes to this process by providing some insights into human intent. It helps to unveil the “hidden power” of language in persuading others of an argument, establishing the ethos of the rhetor, and/or creating feelings that would incline others to share certain views and actions.
7. The study also highlights that language is an irreducible part of social life, dialectically interconnected with other elements of social life, so that social analysis and research always has to take account of language (Fairclough, 2003). It therefore makes sense to use discourse analysis (inclusive of rhetorical analysis) in conjunction with other forms of analysis, for instance, forms of institutional

analysis, to have an enhanced understanding of the social effects of discourse on social existence.

1.5 ASSUMPTIONS AND SCOPE

This study is defined and conditioned both by the inherent assumptions underlying the selected field of research and the scope of its analysis. These constraints are enumerated as follows:

1.5.1 Assumptions

This study is predicated on eight broad assumptions as follows:

1. The study assumes that the code of ethics is an important corporate communication (discourse) regulating the behaviour of managers and employees of the sample companies. However, it is also acknowledged that the companies invariably disclose ethics information to users via other channels such as annual reports, corporate social responsibility reports, press releases, CEO speeches, and the like.
2. The study assumes that all the codes in the study serve the same purpose as codes of ethics with the intent to provide ethical guidance, even though the sample companies use different labels for their individual codes. The study therefore categorically treats all these codes as a “boundary system” of corporate behaviour as defined by Simons (1995).
3. The study assumes that, in the analysis of code content, each disclosure item has equal information usefulness to the users (employees) and each item disclosed is independent of other disclosures.
4. The study treats each of the sample companies as a coherent entity (despite their multiple subsidiaries around the world).
5. The study assumes that senior management is an important determinant of ethical behaviour within the organisation.
6. The study assumes that the employees (target users) are likely to demand greater information disclosure to enhance understanding of ethical rules.

7. It is assumed that both senior management and employees have an equal economic interest in the overall level of code adoption. It is also assumed that internal economic incentives between these parties are likely to be the same irrespective of their corporate status.
8. It is assumed that due to their public availability, the codes are also intended for general consumption, that is, in addition to the stated audience of employees, they also implicitly target at all other stakeholders such as shareholders, business partners, suppliers, consumers, clients, the government, and society.

1.5.2 Scope of the project

The scope of the research is focused on a discourse analysis of the codes of ethics or similar disclosures of 100 top global companies. It provides a rhetorical reading of the content of the codes in general but does not conduct a comprehensive (in-depth) analysis of each code.

1.6 STRUCTURE OF THESIS

Based on the research process, the assumptions and scope highlighted above, the structure of the thesis is presented in Figure 1.1. The figure provides a representation of how the chapters relate to each other and their role in realising the aim and objectives of the study.

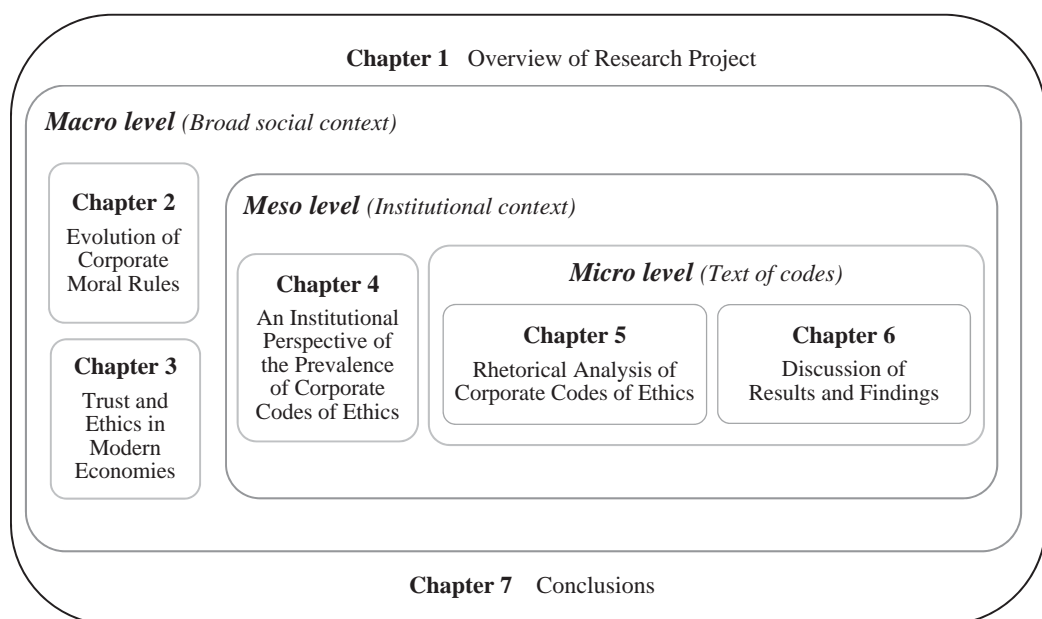


Figure 1.1 Structure of the Thesis

As can be seen from Figure 1.1, the thesis is structured into seven chapters. Apart from the introductory and concluding chapters, the five key chapters focus on a discursive analysis of corporate codes as a means to attain organisational legitimacy. Crucial to this explanation is the linkage between the text and context of the corporate codes, which is examined under a framework of three different levels of analysis. The *macro* level, as represented by Chapters 2 and 3, provides the broad background of corporate codes of ethics through an examination of the historical, societal, and situational context of the codes. The *meso* level, as represented by Chapter 4, depicts the institutional context leading to code adoption. It is located one level below the *macro* level as it takes place in the institutional environment within which business organisations are embedded. The *micro* level, as represented by Chapters 5 and 6, focuses on the language/text of the codes in legitimacy construction. The chapters of the study are as follows:

Chapter 1: Introduction

This chapter provides an overview of the research project. It clearly specifies that the impetus for the study arises, in part, from increasing challenges to corporate legitimacy, and in part, from the growing number of corporate codes of ethics as a token of renewed emphasis on corporate values fundamental to good corporate citizenship. It describes the research problem, specifies the aim and objectives of the study, introduces the research methodology, emphasises the importance of the research, and highlights assumptions and scope of the thesis.

Chapter 2: Evolution of Corporate Moral Rules

This chapter provides a concise overview of the evolution of corporate ethics rules (including later codification) by tracing the historical roots of moral and ethical principles from three sources: religious, philosophical, and economic/secular. In particular, it emphasises the important role of ethics in capitalistic pursuits by highlighting that the social evolution toward economic optimum and social stability requires the guidance of ethics (ethical guidance).

Chapter 3: Trust and Ethics in Modern Economies

This chapter reaffirms the important role of ethics and trust in modern economies. The trend of globalised business has seen increased complexity of ethical challenges facing modern corporations with incidents of ethical breaches creating legitimacy crisis for

corporations. The chapter emphasises that there is a moral dimension of trust, which remains vital in the pursuit of capitalistic endeavours particularly in the highly complex modern environment.

Chapter 4: An Institutional Perspective of the Prevalence of Corporate Codes of Ethics

This chapter reviews the salient features of corporate codes of ethics and ascertains the underlying motives of producing such codes. It chooses institutional theory as the theoretical framework to explain the prevalence of corporate codes arguing that the emergence of corporate codes is largely a response to forces in the institutional environment.

Chapter 5: Rhetorical Analysis of Corporate Codes of Ethics

This chapter introduces content analysis and rhetorical analysis as the analytical methods to test the normatively derived propositions why and how corporations are producing corporate codes of ethics. It is argued that a corporation's own words or rhetoric may be useful in solving its behavioural defects, hence the choice of rhetorical analysis to verify the validity of the propositions (which are framed in institutional theorist terms).

Chapter 6: Discussion of Results and Findings

This chapter analyses and evaluates the results obtained from the document study (content analysis of the codes) in order to determine whether the empirical evidence is in accordance, or otherwise, with the propositions derived from the discussion related to institutional theory and those from the rhetorical concepts. In this regard, factors, which appear to explain the underlying reasons for code disclosure, are highlighted and discussed. Other findings that could help to explain corporate intent/motives are also examined in the chapter.

Chapter 7: Conclusions

This chapter draws the whole thesis to a close by showing the logical flow from beginning to end. It provides a synopsis of the project: the motivation, the relevant literature, the theoretical model, the validation process, the key findings, the potential contributions, and limitations. In addition, it also provides some suggestions for future research.

1.7 CHAPTER SUMMARY

In this chapter, it has noted that the ethics of the business community is under question and many corporations have faced serious and widespread criticism. This is perceived to be a manifestation of corporate failure to meet public expectations in the evolving business environment. It is also perceived to be a major flaw of the current economic system. The decline in business ethics, coupled with the loss in public trust, has seen a growing interest in business ethics and an increasing number of companies producing codes of ethics to (re)claim organisational legitimacy. The impetus of the current study arose from a desire to have a better understanding of the role of corporate codes in this legitimacy construction through a discourse analysis of the codes.

It is reported that discourse analysis was employed to investigate code adoption. The literature-based research provided an analytical assessment of the motives of codes. It also resulted in a set of normatively derived propositions to explain pressures encountered by corporations and the rhetorical strategies employed to show corporate ethics commitments. A combination of quantitative (in the form of a document study) and qualitative research (in the form of rhetorical analysis) was designed to test the validity of the literature-based propositions. The chapter also alludes to the importance, the assumptions, and the scope of the research and concludes with an overview of the structure of thesis.

CHAPTER 2

EVOLUTION OF CORPORATE MORAL RULES

2.1 INTRODUCTION

As the first of two chapters on the *macro*-level discourse analysis of the broad contextual setting of corporate codes of ethics, this chapter provides the wider social and cultural background of the codes. In this case, the *macro*-context is a historical account of the business environment from its ancient times to the present. It explains how and why social actors, dynamic events, and situations had contributed to the evolution of corporate moral rules and principles leading to the institutionalisation of corporate codes of ethics.

A code of ethics is the development of a structure internal to the corporation which aims to provide clear lines of responsibility, transmit values, and maintain corporate culture within the firm (De George, 2010). It manifests a commitment voluntarily entered into by organisations that the standards, values, and principles included in the code are to be applied to the conduct of the organisation's business and activities. Many researchers have regarded this phenomenon as a direct response to the far-reaching financial and societal effects created by the ethical lapses of some major corporations (see De George, 1987, 1989, 2010). Some have viewed it as a natural progression of business development in contemporary society due to the increased interactions of social, political, and economic constituents (see Commers, Vandekerckhove, & Verlinden, 2008; Cragg, 2005; Jones & Pollitt, 1998). Moral concepts, however, do not appear suddenly but evolve over a long period of time as they are "embodied in and are partially constitutive forms of social life" (MacIntyre, 1998, pp. 1-2). Likewise, the development of business ethics and corporate codes of ethics as an instrument of corporate governance is likely to be underpinned by human and social advancement including increasing business activities over time. With the current global environment, businesses, especially big businesses, are under increasingly greater public scrutiny. Social attitudes have also shifted with higher expectations of ethical behaviour from corporations including their leaders. The upsurge of such undercurrents has formed the groundswell of the ethical motivation in the marketplace.

Ethics is a concern unique to humans (Ashby, 1997; MacIntyre, 1998; Robertson, 1971). Most people are of gregarious nature and are basically decent (Aasland, 2004). They seek to co-exist harmoniously for the common good of humanity. However, such a harmonious human interaction requires a high level of trust, cooperation, and reciprocity among members within the community (Gambetta, 1988; Fukuyama, 1995; Uslaner, 2002). Adopting Schopenhauer's⁸ moral theory, MacIntyre (1998) contended that there were three basic motives in human nature: self-interest, malice, and sympathy or compassion. Ethics has been used to deal with moral⁹ problems inherent in those motives in human nature (Ciulla, 2011). For instance, ethics helps to restrain self-interest and malice, and nurture sympathy/compassion for effective human interaction.

Business dealings involve interactions by humans who, as mentioned above, possess some inherent corrupt motives. Some basic rules are therefore necessary to regulate business. As a traditional moral guide, ethics has long existed in the form of reflection on social exchanges and institutions (Ashby, 1997). The ethics of business practices (the moral rules of doing business) can be traced back to the simple economic life in ancient civilisations (Ciulla, 2011; De George, 1989, 2010; Vogel, 1991) where business transactions existed in the most primitive form in agrarian societies. It is believed that observing the basic moral values/rules such as obligation, duty, rights, justice, fairness, cooperation, mutual respect, and forgiveness can lead to social stability. Ethics is the common thread stringing these values acting as a guide to help to differentiate between right and wrong, good and bad, virtue and evil. Like anything in the natural order, rules and convention of social life evolve and are learned through experience. The term "business ethics," which encompasses these concepts and rules, was of more recent coinage when business relations became increasingly ethically challenging leading to the on-set of a social movement to improve ethics in business conduct.

The business ethics movement that emerged in the 1970s in the U.S. saw business ethics being established as a discrete field of study, accompanied by an increase in literature and widespread adoption of corporate codes of ethics. However, according to Ciulla (2011) and Vogel (1991), much of the business ethics writing lacks a historical focus.

⁸ Arthur Schopenhauer was a 19th-century German philosopher who perceived the world as an expression of blind striving or Will. In other words, our world is driven by a continually dissatisfied Will, which continually seeks satisfaction. His moral theory focuses on three primary moral incentives (compassion, malice and egoism) of human nature.

⁹ The terms "moral" and "ethical" are used interchangeably in this chapter and throughout the thesis.

Apart from using recent events such as corporate scandals to argue for a better ethics environment, there is rarely any extended discussion of the emergence of ethical concepts as a result of human and business developments. It is therefore pertinent to examine the historical development of business ethics and the emergence of corporate codes. The manner in which these changes came about will provide insights into the ethical dimension of trust, the underlying reasons for code emergence, and the thematic units of the codes.

The aim of this chapter is to examine the evolution of business ethics and the emergence of corporate codes of ethics. It is important to consider the assumptions and circumstances under which business ethics and codes have been adopted in context with the social, economic, and political environments of the time. The chapter traces the historical connection between ethics and business activities in the formation of business relationships in the Western world from three perspectives identified in the literature. These perspectives are: religious, philosophical, and economic. It has been depicted in the literature that socio-economic life has been intricately intertwined with the prevailing religious and philosophical views of the time and place. A historical exploration of these interactions provides a contextual framework for some fruitful insights into the religious moral concepts, the philosophical principles, and the socio-economic rules on which modern business ethics is based. It also helps to differentiate between the constitution of honest and civilised business relations and relations that are deemed questionable and overtly reproachable.

Figure 2.1 presents graphically this underlying theme of the chapter. It depicts the motives of business ethics by illustrating how moral concepts/rules are framed by the prevailing religious, philosophical, and economic factors and other influences. The concepts and rules emanating from such influences aim to attain social stability through advocating appropriate ethical behaviour. However, they themselves are social constructs that are products of their environment and, likewise, evolve over time. This historical investigation supplements current literature since much of contemporary literature on business ethics lacks a historical focus and tends to concentrate on more recent events (Cuilla, 2011; Vogel, 1991).

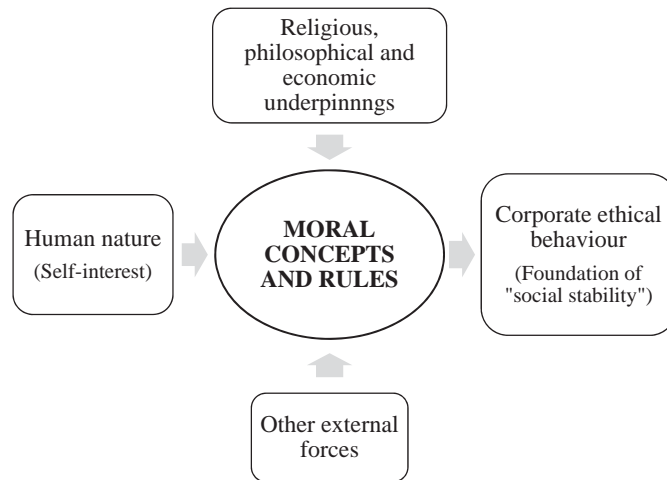


Figure 2.1 The Roots of Business Ethics

The structure of the chapter is as follows. The next section traces the historical roots of business ethics (moral concepts and rules) by delving into the history of Western societies from three interrelated perspectives: the religious, the philosophical, and the economic. The economic perspective, in particular, the issue of (economic) self-interest, provides the impetus for an investigation into the moral basis of capitalism in section three where both the moral strengths and weaknesses of the capitalist model are scrutinised. Section four describes the business ethics movement, which many commentators seem to believe, were to a large extent propelled by the moral shortcomings of capitalism. Section five examines the emergence of corporate codes of ethics, ostensibly an institutional response towards a more ethical direction. The last section concludes the chapter.

2.2 THE HISTORICAL ROOTS OF BUSINESS ETHICS

According to McCloskey (2006), a Western framework for the analysis of ethics was built in classical and Christian times, paralleled to other ancient Asian ethical traditions such as Confucianism, Buddhism, and Hinduism. History has offered us some appreciation of the illustrious traditions inherited by the Western world over the past two millennia. Such traditions, embedded in values and beliefs, have been passed down from generation to generation and adjusted according to different social and environmental contexts. The specific ethical standards for which we hold managers and their companies responsible have changed considerably in recent years. Many of the contemporary moral controversies that surround the activities of business were unanticipated two decades ago,

let alone centuries ago. However, many of the moral values in contemporary society still carry traces of past traditions – the religious teachings, the philosophical principles, and the day-to-day rules in business transactions. Such continuity links the ethical past to the present. An inquiry into this inclusive intellectual moral history can therefore provide some insights into how business ethics has evolved over time (De George, 1987, 2010; Vogel, 1991; Wren, 2000). It can also enlighten one's understanding of the present. This section traces the origins of business ethics and corporate codes in the West from the classical Greek and biblical eras until the end of the 19th century through three closely intertwined perspectives: the religious, the philosophical, and the economic.

2.2.1 Religious perspective

Religions, with their organised systems of beliefs and rituals, have immense influence on the social and economic life of their adherents (Calkins, 2000; Melé, 2006; Rossouw, 1994). There are seven major religions in the world – Judaism, Christianity, Islam, Hinduism, Buddhism, Confucianism, and Taoism, all of which have their perspectives on business ethics (Melé, 2006). In considering the evolution of corporate codes in the Western world, this chapter focuses on the moral concepts expressed in Christianity (Catholicism, Protestantism and its variants) on business practices in the Western countries.

Religion is a significant part of human life. Ethics, in the guise of religious teachings to avoid the Evil and to nurture the Good (see Robertson, 1971), is a subject frequently mentioned in religion. The purpose here is to provide guidance to cultivating virtues and leading a good life deemed acceptable to the teaching of that particular religion, for example, in Christianity, in preparation for salvation. Since business activity is part of human existence, religious teachings inevitably have strong influence on the proper conduct of business. This was particularly the case in the pre-industrial era before the emergence of modern scientific advancements. According to De George (2006), the Old Testament, including the Ten Commandments (approximately 1500 B.C.), applied moral rules to commercial activity,¹⁰ for instance, on topics such as fraud, theft, proper weights and measures, competition, misleading advertising, just prices, and even environmental issues. The New Testament and the Quran (Koran) also discuss business ethics in relation

¹⁰ This view was also shared by Judaism as the Ten Commandments provide God's universal and timeless standard of right and wrong. As such, they are the crucial guiding principles of morality. Several precepts in the Ten Commandments have direct and indirect implications for business practices.

to poverty and wealth.

During the Middle Ages (5th-15th centuries), the Roman Catholic Church assumed leadership not only in the theological sense but also politically. It took on the moral authority to which considerations of economic expediency must be subordinated. The focus on spirituality saw the theology of the Church become the dogma of the day with its rituals observed. Medieval attitude, with its Christian values on humanism,¹¹ treated business as a demeaning pursuit (Cuilla, 2011; Rowland, 2005; Vogel, 1991) and regarded all forms of trade conducted for profit as inherently morally suspect. This pre-reformation thinking, rooted in a belief of human's "rampant individualism which knew few scruples," was based on two fundamental assumptions handed down from the ancient principles. One, economic interests were subordinated to the real business of life – "salvation" the moral end; and two, material riches were necessary but of a secondary importance and therefore needed to be repressed (Rowland, 2005; Vogel, 1991). In short, Judeo-Christian tradition is against avarice; as such, the love of money and the pursuit of material wealth were suspect (Dugdale, 1962). Hence, medieval society held an extremely negative attitude toward usury based on a somewhat biased assessment of economic services. This implied that the accumulation of wealth must pay heed to social and moral obligations. Even though work (manual work) and industry were more respected than they had been in aristocratic Greece or Rome, Catholicism (Christianity of the day) had in fact thwarted the advent of capitalistic pursuits as it considered dealing with monetary matters a sin of usury (Cavanagh, 2010; Rowland, 2005). It was reported that even Thomas Aquinas (1225-1274), Roman Catholic priest and moral philosopher, upheld this church doctrine and disapproved of borrowing and usury.

Business ethics, in the current form, is said to have its formative years in the Reformation era (15th-16th centuries) when Protestantism, led by Martin Luther and John Calvin, emerged as the alternative to Catholicism. Lutheranism and Calvinism challenged the authority of the Catholic Church (Southgate, 1962) and applied both religious and moral considerations to trade and economics. In short, protestant teachings made business and business ethics possible. The Protestant work ethic¹² extolled on hard work (including

¹¹ Humanism has a well-defined view of the value of the human individual within the wider social system in terms of what constitutes good and bad behaviour. This is similar to the views of the Ancient Greeks. However, this way of thinking was frowned upon by the Roman Catholic Church at that time.

¹² This is also known as Puritan ethic.

trade and commerce), self-control, self-reliance, perseverance, frugality, honesty, and observing the rules of the game. This work ethic aiming at the attainment of personal salvation led to the rise of individualism, a necessary ingredient of the capitalistic spirit (see Weber, 1930). In the following two centuries, under the influences of Enlightenment thinkers such as John Locke and Adam Smith, there emerged a separation of this religious doctrine from the moral and ethical considerations of business and commerce.

Toward the end of the Reformation era, British imperialism transplanted the fundamentals of the Protestant work ethic to numerous colonies. In the new world of America, early migrants put the precepts of the Protestant work ethic in practice (Cavanagh, 2010) and developed a society that showed a strong correlation between certain personal virtues as mentioned earlier and the way in which power, privilege, and property were distributed (Vogel, 1991). It was a time that defined “success” as associated with “duty performed,” and that duty, many regarded as the positive outcome of protestant work ethic.

While both Catholicism and Protestantism emphasise the merit of the spiritual (that is, the reward of salvation) in the cultivation of personal and business virtues, they also encourage the development of a good work ethic to sustain the virtues. Some of these religious roots are still influential in social and economic life in the West. As society evolved and progressed, the process of secularisation set in. This was a movement towards a non-religious form of existence allowing a variety of philosophical and ideological approaches to make their mark on social and economic life (Crane & Matten, 2010). It witnessed the historical process in which religion lost its social and cultural significance.

2.2.2 Philosophical perspective

In Western societies, the ethical principles on which appropriate business behaviour are based can be traced back to Plato and Aristotle in Ancient Greece and the philosophical thinkers of the Enlightenment era. Plato and Aristotle were credited with the classical ethical theories of justice and virtue while the Enlightenment philosophers modernised the traditional thinking dominated by the religious approaches of Christianity by offering new worldviews of human nature (Crane & Matten, 2010). These are the conceptions that make contemporary philosophy what it is. Many of these ethical theories have

provided valuable guiding principles for people to live a “good” life as individuals and cooperative members of their community.

Ancient Greece (4th century B.C.) is traditionally regarded as where moral philosophy was originated. Ethics is the normative science of ideal human behaviour, and Ancient Greek philosophers had a penchant for all men to live harmoniously in the presence of diverse social structure with its accompanying problems. For the Ancient Greeks, the good life was the harmonisation of human function (Ashby, 1997). In their teachings, both Plato and Aristotle paid considerable attention to the issue of social justice. For instance, Plato was known for his discussions of justice in *The Republic* while Aristotle dwelt on the relationship between justice and exchange values in *Nicomachean Ethics* (Eatwell, 1998). Aristotle defined justice as giving each his/her due, treating equals equally, and trading equals for equals, or “having an equal amount both before and after the transaction” (Aristotle, in Crisp, 2000, p. 88). In *Politics*, he defined “natural” and “unnatural” modes of acquiring wealth and considers the notion of interest particularly abhorrent. Aristotle saw a close link between his ethical theory and his political theory. It was reported that he had discussed the vices and virtues of tradesmen and merchants. For him, every craft, enquiry, action, and project seemed to aim at some good as long as it was done prudently and not conducted in a selfish profit-orientated manner (that is, in a deceptive way) (Kitson & Campbell, 1996). Ciulla (2011) observed that in Aristotle’s view, ethical challenges relating to profit making based on anything other than trade for goods might be problematic. This is due to the fact that profit making has no boundaries as it is based on insatiable wants. The reference to exchange values, justice, and transaction (implying trade, exchange, property, acquisition, money, and wealth), according to De George (2010), has an almost modern ring. It was reported that Aristotle never pretended to examine the price mechanism or any aspect of market exchange as they were in practice. However, he was known to have offered a normative ethical analysis for the critique of greed, or the unnatural use of one’s capacities in pursuit of wealth for its own sake. Additionally, he had condemned usury because it involved making a profit from currency itself rather than from the process of exchange in which money is simply a means (De George, 2010; Eatwell, 1998). These are matters of business ethics today.

In the heydays of Catholicism, highly-revered priests such as St Augustine of Hippo

(354-430) and Thomas Aquinas, made their respective contributions to “moral theology” which had had an enormous impact on Catholicism. In applying Aristotelian ethics to the Bible and the writings of the leaders of the Catholic Church, Aquinas developed an ethical system that included norms, virtues, and ends (Melé, 2006). However, with his medieval background, Aquinas’s interpretation of “just price” was somewhat different from the philosophical position taken by Aristotle (Baldwin, 1959, cited in Eatwell, 1998, p. 21). His approach reflected the extant Medieval European social view to hold trade and industry cheap and lowly since the pursuit of wealth was degrading for any “worthy” citizen belonging to the élite groups, that is, the Church and the aristocracy (see previous section) (Cavanagh, 2010; Southgate, 1962).

The social stratum described above persisted even into the Renaissance (14th-16th centuries). In his book *The Prince* (1513), a primer on how to maintain political power, Machiavelli (1469-1527) provided an incisive portrayal of the selfish and individualistic aspects of human nature with the ruler (the prince) practising leadership through cunning and unscrupulous behaviour¹³ (see Eatwell, 1998 and Robertson, 1971). In Machiavelli’s view, human action was driven not by some sort of conventional heroic morality but by self-interest. It was because the prince was driven by self-interest that his actions were logical, not random, and were restrained by a calculation that often dictated that actions be prudent and moderate. This was in sharp contrast to the notion of wild and destructive passions and the foolish search for disastrous glory that sustained the heroic medieval ideal (Eatwell, 1998). Directly in conflict with the dominant Catholic doctrine (right and wrong) of the time, Machiavelli was considered an amoralist. His moral teaching about the art of leadership was in effect a seed which would stay dormant until people in positions of power and influence in later generations discovered and nurtured it to produce a sense of happiness shaped by their own values and beliefs (Kitson & Campbell, 1996).

During the Reformation era (17th-18th centuries), two English philosophers (Thomas Hobbes and John Locke) were known for their philosophy regarding the social contract entered into between “the governing” and “the governed” for the betterment of society. Despite the common interest in social contract, their views on human nature and human

¹³ This was based on his experiences in Italy in an age of violence and misgovernment.

rights vary. Hobbes (1588-1679) postulated in his book *Leviathan* (1651)¹⁴ a pessimistic view of human beings as inherently selfish and human society as harsh, dangerous, and bestial. According to him, people cooperated out of sheer necessity to place their individual rights in the hands of an absolute ruler to whom they pledged complete obedience in return for security and well-being (see Rowland, 2005). This puritan outlook emphasises the view that the legitimacy of the state depends very much on the cooperation and trust of its citizens (O'Hara, 2004). In contrast to Hobbes's pessimistic claim that only an absolute ruler could save a person from the brutality of others, Locke (1632-1704) argued that people formed a government as a matter of convenience, designating a disinterested judge or a group of judges to defend their natural rights in the social contract. Further, Locke introduced the concept of property as a moral right, by virtue of a person's labour. To him, individuals were morally entitled to the products of their labour (Shaw, 2014) and rulers (the governing) were obliged to fulfil a social contract in preserving the liberties of their citizens. These were the philosophical roots of current contractarian approaches to business ethics (see Donaldson & Dunfee, 1999).

As the "Age of Enlightenment" (17th-19th centuries) advanced in the Western world, the secularisation process became more pronounced. Two strands of ethical theory - consequentialism and non-consequentialism - arose to criticise and evaluate the social and political institutions of the day, for example, the teachings of the Church. *Consequentialism* assesses the right and wrong in terms of the outcomes of actions, as exemplified in the utilitarian theories of Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873). Bentham developed his theory from detecting the inconsistencies in the very foundations of social and legal practices and the contradictions of the teachings of the Church. He also observed that people acted in their own interests in getting pleasure and avoiding pain. His utilitarian theory postulates that one should always act to produce the greatest possible balance of good over bad for everyone affected by that action. It is a system of value and a conception of the moral good rooted in human nature. Mill expanded on Bentham's view that good acts were those which produced the greatest happiness for the greatest number of people.

In contrast, *non-consequential* philosophers such as Immanuel Kant (1724-1804) reject

¹⁴ This book was written during the English Civil War (1642-1651). It portrayed the need for a strong central authority to avoid the evil of discord.

the apparent claim that the good of the majority can be used to justify considerable harm to others. They hold that, for an action to be ethical, it must have a motive beyond self-interest and mutual advantage, and that justice is something contained within an action itself, not in its consequences (Bloomfield & Murray, 2008; Bowie, 2006). As a rationalist, Kant sought to find a reason-based, scientific substitute for the moral authority of the Church and the “irrational” belief in such unobservable phenomena as conscience. He contended that it was not necessary to know anything about the likely outcomes of actions. He was of the view that humans were extremely moral creatures with a strong sense of duty that underpinned such notions as trust. Reason, by itself, could reveal basic moral principles and that moral reasoning was not based on factual knowledge. His philosophical thinking – categorical imperative – expressed his belief that humans were capable of (1) acting only when the principle of the action is not self-defeating, (2) observing the “respect for persons” principle, and (3) being governed by the laws of morality (just). Both consequentialist (utilitarian) and non-consequentialist approaches are widely adopted by contemporary business ethicists. The former is used for the pursuit of social improvement. The latter approaches, said to be closely linked to Judeo-Christian thinking in light of their focus of the individual’s rights and duties, are employed in evaluating business problems related to justice, rights, and duties.

The philosophical thinking of Plato, Aristotle, Aquinas, Hobbes, Locke, Bentham, Mill, and Kant discussed above have long been recognised as important yardsticks for the evaluation of personal and corporate activities. Campbell and Kitson (2008) have categorised these thinking patterns into three basic types: consequentialism, absolutism (non-consequentialism), and virtue theories. The first two focus on actions or choices or situations while virtue theory is what a good person would do to live a good life. All of them have provided guidance in making morally informed decisions. However, the religious values and philosophical teachings are but part of the broader social environment. Over the years, as economic activities developed, these religious and philosophical concepts and rules were absorbed into the development of economic values.

2.2.3 Economic perspective

Economic activities emerged in the earliest civilisations since humans have the propensity to truck and barter (McCloskey, 2006). The Code of Hammurabi, dated

around 1172 B.C. in the Mesopotamian regions, was reported to be one of the earliest codified laws dealing with economic affairs. The Code consisted of 282 laws, expressing the Mesopotamian rulers' attempt to govern through a set of fundamental legal and judicial reasoning relating to business dealings, personal behaviour, interpersonal relations, and a host of other social matters. One-half of this Babylonian law code dealt with agency relationship and business matters of contract, establishing the terms of wages, fees, and transactions (that is, honest prices) (Cragg, 2005) and other issues concerning commerce such as tariffs and pricing. The early Romans were also reported to have had some rules dealing with profiteering and dishonest behaviour in business dealings (Ciulla, 2011).

The early roots of business ethics can be detected from the transactions between ancient marketers and traders. Even though the scale of economic activities was small compared to modern standards, the moral duties of those in business had, however, emerged denoting what were decent or unacceptable business relations (van Luijk, 2006). Commerce is by its very nature a normative enterprise where normative overtones remain to the present. In pre-market economies, economic activities were kept in a marginal role by extant social and economic structure of societies (see previous sections) with a tendency to lean on extortion rather than fair exchange (Vogel, 1991). For the commoners, economic life (whether tilling the land or trucking/bartering) was conducted not for profit but for self-sufficiency, often burdened by the requirements to contribute to the coffers of the chiefs (kings and aristocracy holding the secular power) and the priests (representing heavenly dominion) (Dugdale, 1962; Wren & Bedeian, 2009).

While feudalism held sway, the Crusades were initiating a secularisation process in Europe (Wren, 2000). Through their numerous cultural confrontations with the East, they were instrumental in igniting a new spirit of trade and commerce in the West by opening up new markets and sowing the first seeds of a new middle class. Most importantly, through their acquaintance with and appreciation for non-European civilisations and religions, they were able to introduce some new moral concepts into extant business practices.

Co-existing with feudalism at this time were the guilds, fairs, and markets, which played an important role in promoting business activities in local and neighbouring towns. The

guilds and fairs developed their own rule structures as to the quality of work, without the force of the law (Barry, 1998; Dugdale, 1962; Southgate, 1962). This “natural economy,” although based mainly on family economic arrangements, was extremely widespread (Southgate, 1962). However, the entrepreneurial spirit of many of these traders/merchants was much strengthened with the rise of mercantilism in the 16th-17th centuries when strong nationalism led to the rise of colonial expansion. With the discovery of new trade routes and new products, the “spoils” system was in need of some restraints to control the insatiable greed and self-interest of not only the merchant-traders but also the sovereigns (Barry, 1998; Dugdale, 1962).

Arguably, the various forms of economic life were guided by custom, that is, a combination of extant social system and the teachings of Christianity (Dugdale, 1962). This practice, in the form of implicit and explicit rules, provided guidance for business conduct so as to ensure cooperation and harmony in social life, where mutual benefit could be accrued by the parties concerned with “fair trading” and “just price” for every article traded. The mercantile pursuit of self-sufficiency was admittedly different to that of the agrarian focus (see Southgate, 1962). A conspicuous outcome of increased commercial activities had resulted in the rise of the middle class – “the *bourgeois*,” whose aspirations for a good life had included a pursuit for free commercial intercourse and the accumulation of wealth. These so-called “*bourgeois virtues*” were still being frowned upon because the prevailing anti-business sentiment dictated that the materialistic pursuits of “the middle class” were decidedly bearers of evil (McCloskey, 2006).

In turn, the decline of mercantilism saw the ascent of the Age of Enlightenment in the 18th century. The “enlightenment” brought with it new ideas and social reforms, allowing for further secularisation of entrenched orthodoxy. Individuals were given the freedom to use their intelligence to question the oppressive political order and the religious and philosophical dogmatism.¹⁵ In economic life, individuals started to acquire a new worldview. With this awareness, they came to the realisation that human beings could assume control of their own life by becoming self-determining, self-reliant, and independent (Ashby, 1997). With this new reasoning, they were able to recognise that the

¹⁵ Martin Luther and John Calvin, mentioned in Section 2.2.1, were Christian reformers who challenged and broke away from the dominant Roman Catholic faith of the time. Protestant Reformation provided the impetus for Western capitalism by extolling the reward of hard work.

flaws of human nature – selfishness, pride, ignorance – could all be contained with individual benevolence and understanding (Ashby, 1997, pp. 378-380). The contributions of the Enlightenment set the scene for major social and economic changes. In particular, capitalism emerged based on the premise that there was a natural order and harmony in economics and that the mechanisms of the market should be left alone without government and other interferences (Wren & Bedeian, 2009).

David Hume (1711-1776), Scottish philosopher and early advocate of the market system, believed that humans were self-interested beings who would cooperate with others for mutual survival and prosperity. He used the trading relationship between two farmers to depict how morality could be developed automatically. People do not have to display “kindness” to behave morally, or to show benevolence in order to fulfil the demands of the rules of just conduct. In this example, both parties gain from a certain kind of cooperative activity and they learn the advantages of such cooperation by repeated “plays” of the “trading game.” All that is required is that they refrain from actions which could lead to immediate gratification by, for example, breaking a promise or not fulfilling the terms of a deal, and which, if repeated, could make everyone worse off (see Barry, 1998, p. 171).

Although the specific terms of “ethics” and “business ethics” were not mentioned in the above discussion, there was a strong presence of ethics in the regulation of business affairs even in those early days due to the desire for cooperation and social stability. The history of commerce shows that certain rules, concepts, or unwritten codes had been introduced to restrain improper behaviour in business dealings. Some of these were proactive measures anticipating certain untoward commercial behaviour while others were reactive to critical incidents. For instance, the South Sea Bubble in the early 1700s, labelled as the world’s first great financial scandal involving the collapse of the South Sea Company, was said to have revolutionised business laws and practices in England (Ciulla, 2011; Southgate, 1962). In subsequent years, the harshly competitive business environment brought to light many ethics-related issues involving the investing public, the management, the labour force, the working environment, and inter-business and business-state relationships. These had led to increased scrutiny of business, heightened concerns for corporate accountability, and the formalisation of the “golden rules” of commercial activities in the form of corporate codes of ethics/conduct (Barry, 1998;

Paine, 2003; Rowland, 2005; Vogel, 1991). More recently, the financial crises and scandals drew attention to the important business ethics issues requiring remedial measures to regain social equilibrium (Ferrell, Fraedrich, & Ferrell, 2011).

To summarise, this section has traced the origins of business ethics principles from ancient civilisations up to the advent of the industrial era in the 18th century when political and social outlooks began to undergo substantial changes under the development of capitalism. Three distinct but not mutually exclusive traditions – religious, philosophical, and economic – are found to have played an important role in the formation of the moral beliefs of Western societies. Both philosophy and religion have for centuries “propounded moral beliefs and elaborated moral concepts for ordinary human life” (MacIntyre, 1998, p. 112). The fact that today’s business ethics belief systems bear traces of ethical teachings of those of our forebears would suggest that contemporary business ethics development is part of an on-going moral dialogue with deep religious, philosophical, economic, and even secular roots. As political and social environments changed over time, moral standards (virtues, norms, and commands) also adapted to the worldview of the time (De George, 2010). In the 18th century, industrialisation and the emergence of the capitalistic spirit had intensified the secularisation of society and introduced a new economic outlook to human life. This, in turn, had significant social bearings on the development of business ethics, particularly in light of the growth of corporations and its associated social issues and the challenges emanated from the globalisation of business. These are discussed in the next sections.

2.3 THE MORAL BASIS OF CAPITALISM

Profound changes were taking place in agriculture, industry, trade and commerce, and in the social order at the end of the 18th century (Dugdale, 1962; Southgate, 1962). The most conspicuous outcome of these developments was an economic system that was essentially new and the growth of new social classes, especially those merchant manufacturers and the wage earners (Ashby, 1997) categorically called the middle class (McCloskey, 2006; Wren & Bedeian, 2009). However, history has also shown that capitalism leads to a massive concentration of economic resources in the hands of a tiny minority of firms and property-holders (Ashby, 1997; Bassiry & Jones, 1993). When the drive for efficiency, productivity, and a better life for all breaks down in reality, it raises questions about the inherent flaws of the capitalist model, in particular, the ethics and

self-interest of capitalistic pursuit of profit. Although Adam Smith (1723-1790) has been credited as the “father” of capitalism, he has also been blamed for bringing forth the social ills associated with capitalism. The next section examines Adam Smith’s capitalistic model in more detail and consider the moral paradox of ethics and self-interest of economic behaviour.

2.3.1 The ethical underpinnings of Adam Smith’s model

What made capitalism unique is the total dependence on the market system for the operation of an economy (Barry, 2014; Vogel, 1991) giving free rein to the entrepreneurial spirit, and making the pursuit of profit and the accumulation of wealth ethical. As such, it has been generally accepted that capitalism was not only the world’s first fair economic system but also the first social system because it allowed individuals to receive their wealth as their just reward for performing a socially useful function (Vogel, 1991). The moral case for profits rests on their status as a reward for activities that increase society’s overall material abundance, not those that deduct from it.

Capitalism has had many successes in terms of improving the material prosperity of some peoples and some nations (Bassiry & Jones, 1993; McCloskey, 2006; Newbert, 2003). Defenders of capitalism tend to credit the success of capitalism to the *laissez-faire* regime promoted by Adam Smith in his book *The Wealth of Nations* (1776). Capitalism has undoubtedly heralded in an economic prosperity not heard of previously. Critics of capitalism, however, have routinely criticised the system as the source of many social problems (McCloskey, 2006; Rowland, 2005). To do justice to Smith and his economic theory, one must view the emergence of capitalism in conjunction with the social setting of the time. At the time of Smith’s writing, increased foreign trade and steady rise in industrial development had stimulated the capitalistic spirit in England (Dugdale, 1962; Southgate, 1962; Wren & Bedeian, 2009). The country was poised to replace the existing systems of feudalism and mercantilism with a new economic regime (Ashby, 1997). In *The Wealth of Nations*, Smith used John Locke’s notion of labour to plead for unrestricted economic freedom arguing that it would benefit society as a whole. He also accepted that individuals were motivated by both self-love and greed, and in applying Francis Hutcheson’s (1694-1746) philosophy of “the greatest good for the greatest number,” he argued that individual’s self-interest, together with the law of supply and demand, would “guarantee a self-regulating economic system wherein production and

wealth increased to their greatest possible extent” (Oosterhoff, 2001, p. 142). He emphasised that there were natural laws in economic life that must not be interfered with, and there was an “invisible hand” which guided all for the ultimate good of all. His notion of the market’s “invisible hand” laid the groundwork for much of modern neo-classical and neo-liberal, *laissez-faire* economics.

It was this economic thinking that led critics to blame Smith for defending a system of organised greed, encouraging the pursuit of self-interest by the rich at the expense of the less fortunate (Wilson, 1989). Karl Marx (1818-1883) was the most forceful critic of capitalism. He claimed that the major flaw of this unrelenting capitalistic pursuit was the exploitation of labour (that is, the value of surplus labour) which had led to a widening chasm between the rich and the poor because “the appropriation of surplus value by the *bourgeois* is the exploitation of the proletariat” (Ashby, 1997, p. 498). This critique has been taken as a moral condemnation since “exploitation” is a morally charged word. Marx considered this a matter of injustice as all property is socially (as opposed to privately) owned. Contemporary supporters of socialism and communism have adopted similar views in their censure of modern multinational corporations for deriving their profits from the exploitation of workers particularly in the less developed countries (Shaw, 2014).

Defenders of Smith find that his philosophy is profoundly ethical and that it is designed to emancipate the consumer from a producer and state-dominated economy (Bassiry & Jones, 1993). According to them, it was developed in light of the deficiencies of mercantilism with its pursuit of self-sufficiency and high degree of administrative centralisation that had immensely benefited producers and entrenched interests at the expense of consumers and the growing middle classes. They point out that, to provide a reprieve for the aspiring capitalists, Smith developed a market-driven, consumer-based economic system as an alternative to the political economy of mercantilism. This was a production system organised according to the market forces of supply and demand and was compatible with a democratic political system oriented to maximising the welfare of the citizen as a political consumer. Smith’s model shifted the “institutional emphasis from centralized to decentralized structures, from authoritarianism to representative democracy, from monopoly to competitive markets, from autarky to international interdependence through a spatially expanding division of labour, and from producer

appropriation of the societal surplus to consumer sovereignty” (Bassiry & Jones, 1993, pp. 622-623). In 18th-century England, Smith’s concepts of *laissez-faire* and consumer sovereignty were considered outlandish and had some quite radical implications.

In Adam Smith, we have a thinker whose writings both expounded capitalism and illuminated ethical theory (Ashby, 1997; Eatwell, 1998; Wilson, 1989). His 1776 book, *The Wealth of Nations*, had an ethical base, which had already been presented in greater detail in an earlier work – *Theory of Moral Sentiments* (1759) (Ashby, 1997; Bassiry & Jones, 1993; Eatwell, 1998; Wilson, 1989). In his 1759 book, Adam Smith had laid out his analysis of human behaviour, of society, and of ethics. The ethical theory underlying his economic theory of capitalism comprises four key moral values: (1) *prudence* (a concern for one’s own happiness), (2) *benevolence* (an active concern for the happiness of others), (3) *justice* (a matter of law), and (4) *self-command* (the capacity to act from freedom with self-discipline). The ethics developed in *Theory of Moral Sentiments* “forms a necessary window through which *Wealth of Nations* must be viewed” (Ashby, 1997, p. 394).

Wilson (1989) noted that Smith had associated five moral problems with capitalism: (1) impoverishing the spirit of the workers and the work ethic more generally; (2) creating cities in which anonymity facilitated price-fixing; (3) expanding the ranks of the idle rich; (4) inducing government to foster monopolies and selective privileges; and (5) separating ownership and control as the scale and capital requirements of business firms increased. In Smith’s view, the potential dysfunctions of capitalism could lead to two contrasting scenarios. First, it could create a concentration of economic resources by monopolistic joint-stock corporations with a high likelihood of generating abuses and breeding ineffective management. Second, an economic system based on small producers would lack the ability to affect prices through the exercise of market power since competitive markets would ensure that no producer assumed a dominant position. This is what happens in contemporary business (to be discussed in more detail in Chapter 3).

Smith also recognised that a capitalist system might fall victim to its own economic successes (and excesses) when the social emphasis shifted from production to consumption with the qualities of the work ethic being weakened by complacency and insatiable wants. He explicitly endorsed the practice of frugality and discouraged

prodigality and misconduct (see Bassiry & Jones, 1993, p. 623). A shift in emphasis from the virtues of productivity, frugality, and responsibility to leisure and consumption-related activities would most likely undermine the basic normative and behavioural foundations of classical capitalism (Bassiry & Jones, 1993). Most importantly, he also accepted the inevitability of market failure in the provision of public goods and the consequent need for government intervention to ensure that services that could not be rendered profitable would nonetheless be available to the public (Wilson, 1989).

The above discussion suggests that Smith was both an economic thinker and a moral philosopher, with the magic of “the invisible hand” incorporating two interrelated notions - economics and ethics (Bassiry & Jones, 1993). Smith’s concerns seemed to be primarily ethical, and the economic system he devised was the means to achieve a more moral, ethical, and just social order – not an end in itself, as is so often implicit in the works of contemporary proponents of capitalism (Lux, 1990). Unlike today’s free marketers, Smith did not recommend that the morality of the market was appropriate for society at large. He merely suggested that honesty, discipline, thrift, and cooperation, not consumption and unbridled self-interest, were the keys to happiness and social cohesion. Smith’s vision was a capitalist economy in a society governed by non-capitalist morality (De George, 2006).

2.3.2 Ethics and self-interest - The “moral paradox” of capitalism

Bernard Mandeville, in his well-known *Fable of the Bees* (first published in 1705), used the bees as a parable to posit the incompatibility between virtue and commerce by arguing that the pursuit of profit (self-interest) would necessarily lead to the breach of traditional virtues (Barry, 1998; Eatwell, 1998; Rowland, 2005). His observation of the beehive in its *non-moral* state where “Every part was full of vice/Yet the whole mass and earthly paradise” helped to depict that virtuous bees who abandoned luxurious consumption would swiftly impoverish the hive. Whereas Mandeville’s fable has been in circulation since the 18th century, the debate about the link or lack of it between ethics and self-interest in economic analysis is of more modern origin (Eatwell, 1998). The suggestion that the pursuit of self-interest (or vice) is the foundation of prosperity uncovers the “moral paradox” of capitalistic pursuits which requires an examination of the ethics of free enterprise and the virtue of the profit motive.

Capitalism is arguably a utilitarian moral system where morality is evaluated strictly on its ends or consequences. It has, however, been argued that today's capitalists are not only seeking to satisfy both selfish and ethical motivations, but in so doing they are also contributing substantially to the overall welfare of society through job creation, wealth redistribution, and lesser discrimination than previous eras (McCloskey, 2006; Vogel, 1991). Vogel (1991) noted that while capitalism often gave rise to profits generated in positive sum games, such is not always the case. Capitalist systems focused solely on economic efficiency can often create adverse societal outcomes. It is true that the neo-classical economic model has brought an improving standard of living to many people around the world. It is also true that it has created vast economic inequality, for example, concentration of wealth, market power, and cheap labour (Bakan, 2004; Bassiry & Jones, 1993; Commers et al., 2008). Over time, the various dysfunctions have eroded the utilitarian ethical basis of the system. Contemporary capitalism, dominated as it is by large corporations, entrenched political interests, and persistent social pathologies, bears little resemblance to the system which Smith envisioned would serve the common man (Bakan, 2004).

According to Newbert (2003), neo-classical economists have misinterpreted the capitalist system Smith envisioned. Despite Smith's wish to create an effective and productive capitalist system where individuals pursue interests of both the self and society, modern economic theory has become engrossed in the pursuit of economic self-interests at the expense of other, higher order motives. Notwithstanding the impressive results produced by capitalism, many still feel uncomfortable with the relationship between the economic actors and regard it as essentially based on selfishness. The pursuit of monetary or material self-interest and greed is perceived to have played a central role in the proper functioning of market economies. Vogel (1991) attempted to explain this phenomenon with the concept of motives, which he considered the moral Achilles' heel of business. On one hand, it is not uncommon for corporations to employ some morally dubious behaviour to produce economically beneficial results. On the other hand, corporations are also seen to be engaged in corporate philanthropy, corporate social responsibility, and other activities encapsulating corporate conscience.

Neo-classical economists, supporters of the free-market *laissez-faire* economy, claim that the market is a morally neutral and beneficent institution. It performs a fundamental

function for society, ensuring the provisions of goods and services that society wants and needs, whilst aiming at the most efficient use of resources. It is therefore a neutral arbiter in the active resolution of conflicts of interest. Contrary to this position, it is argued that markets are not ethically neutral, apolitical, and inherently beneficent institutions; neither are they “natural” institutions. They are historic-socio-politico-cultural and moral institutions. They reflect and are influenced by the morality of individuals and society as a whole and their morality can in turn affect the choice and behaviour of economic agents (Kitson & Campbell, 1996).

Commers et al. (2008) also argued that the market was not some kind of natural phenomenon that existed outside of human will as market forces were related to human behaviour and choices. The capitalist/neo-liberal market system that dominates contemporary society is a human creation that reflects a particular set of moral assumptions and values. Its assumptions about human nature and human behaviour are decidedly individualistic and focus on the belief that human behaviour is self-centred and always oriented toward maximising personal welfare, not value free as it claims.

According to Ciulla (2011), business rested on the pursuit of self-interest. However, with proper control, the pursuit of self-interest was likely to lead to the greatest social well-being, not the unrestrained capitalistic exploitation manifested in recent years. The pursuit of self-interest should therefore be countered by self-control and constraints, in the form of “delayed gratification” as suggested by Max Weber (1930). This is not dissimilar to Adam Smith’s concept of “enlightened self-interest” or self-interest that is tied to the interests of others in society. The attempt to resolve the moral paradox of self-interest was first presented in 1759 in *Theory of Moral Sentiments*, with the underlying concept as “sympathy.” In pursuing one’s self-interest, it is important to have a proper sympathy for the concerns of others. Only by having sympathy towards one another will one behave ethically in the marketplace.

Without doubt, there are two sides to capitalism, the positive (economic prosperity) and the negative (social and economic inequality). Whatever success capitalism has attained in its efficient allocation of resources and in its response to resolving perennial human problems, its achievements have come at the cost of justice – a partial suspension of familiar moral rules (Barry, 1998). Even Adam Smith himself knew that his economic-

moral model would encounter not only market but also social problems as it was an economic system relying heavily on the motive of selfishness to achieve its goals. The fact that we are still arguing with unprecedented intellectual rigour about its underlying economic-ethical concepts is proof that the moral paradox that Adam Smith so insightfully described more than two centuries ago is still with us. We are no closer than he was to resolving it (Vogel, 1991).

2.4 THE BUSINESS ETHICS MOVEMENT

The global triumph of capitalism from its emergence in the mid-18th century until the present (apart from the disruptions of the two world wars) is momentous. One of the significant changes in the business world in recent decades has been the growth in size, diversity, and geographical dispersal of companies. As organisations grew in size and magnitude, unethical business dealings also increased (Campbell & Kitson, 2008) and new ethical questions were raised (Cragg, 2005; Jones & Pollitt, 1998). De George (2006, 2010) and Ferrell et al., (2011) observed that the signs of a business ethics movement began to emerge in the 1960s and 1970s when there were growing concerns about business ethics and all aspects of morality in the public domain as a result of increasing social problems, declining religious faith, and growing disillusionment with materialism. The next sections analyse the business ethics movement defining the terms “movement” and “business ethics movement,” and examining the forces propelling the business ethics movement, including its goal, the initiatives and activities sustaining it, and the contributions made by those committed to the cause.

2.4.1 “Movement” defined

A “movement” is “a series of acts and events planned towards a definite end by a body of people” (The New Lexicon Webster’s Dictionary, 1988). From this definition, a “movement” can be construed to have the following features: (1) a common goal (end) targeting at a particular field; (2) a series of actions or activities directing toward this goal; and (3) a trend of events being organised by a dispersed group of people or organisations committed to the same cause. “Business ethics movement” is characterised in this thesis as a social phenomenon spanning a period of time (from mid-20th century to the present) and possessing three key elements: (1) a common goal to improve the business ethics environment which is supported by (2) a multitude of business ethics initiatives, actions and activities (3) organised and/or sponsored by devotees from diverse

disciplines and sectors. It must be noted that even though a lot of the discussion focused on the U.S., the business ethics movement was not solely confined to that country. Following the lead of the U.S., other Western countries such as the U.K. followed suit.

2.4.2 The goal

The goal of the business ethics movement was to restore public trust in the business community (De George, 2010). A healthy business environment is indispensable to economic prosperity and social stability, but the waves of corporate scandals and some corporations' fixation on the pursuit of profit had severely eroded the trust and confidence in economic institutions as the champion of the much-cherished economic prosperity and stability. The business community needs to take constructive actions to redress the ethical issues to restore public trust; otherwise their viability would be at stake (DiPiazza & Eccles, 2002; Gillespie, Hurley, Dietz, & Bachmann, 2012; Lorsch, Berlowitz, & Zelleke, 2005). To understand how this goal to restore public trust came to being, it is necessary to review the forces driving the business ethics movement.

According to Rowland (2005), there were three trends that had profoundly changed the nature of the Western world. They were: (1) the rise of individualism; (2) the remorseless intrusion of the market into every aspect of society; and (3) the revolutions in communications technology. Critics of capitalism observe that we live in an age of selfishness with the "self" and one's own needs as the ultimate justification of everything. The notion of "self-interest," as the basic assumption of the neo-economic model, has been criticised as the major flaw of that model (see discussion in previous sections). The intrusion of the market system in all aspects of society gives a negative view of the omnipresence of that system and implies that we live in a consumer society that allows for instant gratification of our material desire. In addition, the advancement in communications technology has not only facilitated the transfer of and access to information by all, but also fostered a powerful media sector to report, unwittingly or intentionally, incidents of business misconduct in virtually every major industrial economy.

Capitalistic pursuits had assisted post-war economic recovery. While the growth of business brought forth progress and prosperity, the exposure of some scandals involving major businesses (for example, General Motors was seen to put profit and style ahead of

lives and safety) led to an anti-business attitude as big businesses were perceived to be profit-driven practices doing harm to society, such as the exploitation of the workforce, the decay of inner cities, unsafe products, and damage to the ecological system (Ferrell et al., 2011). This so-called progress has created an ambivalent feeling about the capitalist model particularly in light of the frequent incidents of market failures and unethical behaviour of economic agents. There is evidence that the checks and balances put in place to make the system of capitalism effective were undermined and overwhelmed by a combination of complacency, hype, arrogance, greed, and lack of oversight (Jackson & Nelson, 2004).

The net result of such trends is an erosion of trust in business, a “wearing-away of all that is most significant in human life, in the face of the unrelenting pressures of a selfish, market-driven society” (Rowland, 2005, p. xviii). Further, business is affected not just by economic circumstances, but by social, political, and technological changes, and the shifting attitudes and outlooks of their stakeholders. Consumerism, social responsibility, geopolitical uncertainty, investigative journalism, global markets, economic downturns, and on-going environmental decline have all played a role in influencing the outlook of corporations and the rising societal expectations of corporate leaders.

All these forces had led to a “sea change” in social attitude demanding closer integration of business and ethics to meet the requirements of a tacit social contract (Donaldson & Dunfee, 1999). The social responsibility of business, whose origins could be traced to the philosophical thinking of Hobbes and Locke on social contract and the utilitarian theories of Bentham (1776) and Mill, became a recurring theme and managers were often urged to reconsider the business-society relationship (Gray, 1990) and to forgo profit in order to fulfil some social goal which was not intrinsically a part of business (Barry, 1998). These were demands that corporate and political leaders could not ignore. They needed to “navigate with a new compass” in the new and uncertain global environment (Jackson & Nelson, 2004, p. 19). Metaphorically, this movement was the new moral compass in the various forms of business ethics which provided direction for the navigation. As such, the mission of the business ethics movement was to generate constructive ideas and seek resources from all interested parties with the aim to producing strategies and guidelines for appropriate ethical business conduct to serve the needs of the increasingly complex marketplace. These new initiatives and the contributors are discussed in the next section.

2.4.3 Activities and contributors supporting the movement

To achieve the goal and ensure an ethical equilibrium in the business environment, both proactive and reactive ethics measures were put in place to address the economic, social, and environmental problems created by corporations. It has been argued that the presence of “living ethics” (Verbos, Gerald, Forshey, Harding, & Miller, 2007) can help to resolve the moral turmoil and ethical strife to make the world, in particular the business world, a fairer and more just place for everyone. Thus, a diverse set of ethics initiatives – public and private “checks and balances” – are introduced through education, training, and mechanisms for ethical appraisal and reflection.

The 1970s saw business ethics emerge in the U.S. as a field of study as a result of extensive social demands made on business institutions (Barry, 1998; De George, 1989, 2010). Efforts to improve the ethical environment involved an array of initiatives, activities and actions ranging from initiatives taken by the universities to actions taken by the government and corporations. At the university setting, business ethics was gradually developed as a discrete course of study with the recognition of social issues courses as a staple in business schools. Initially taught by professors of management, the content and pedagogy of these courses were later strengthened by the contributions of a significant number of religious thinkers and philosophers. These new comers helped to form the basic structure of business ethics courses by making the abstract and detached nature of philosophical inquiry more relevant to the pragmatic world of business. Business schools employed these ethical theory and philosophical analysis in their new curricula on the moral obligations of organisations such as business policy, corporate social responsibility, and business ethics. They also developed ethics cases based on actual business events and incidents to give a sense of realism in the classroom. For example, Harvard Business School received huge financial donations to develop business ethics courses from an alumnus John Shad (former SEC chairman from 1981 to 1987) in 1987. Outside the university setting, ethics centres such as the Center for Business Ethics were set up to deal with business ethics issues. Conferences on the social responsibility of business and on ethical issues in business were held. These arrangements helped to bring together academics, theologians, philosophers, the business community, and all interested parties to discuss ethical issues, conduct interdisciplinary research, and engage in intellectual debates on various aspects of business ethics. The volume of business ethics literature grew as a result of these interactions.

With these initiatives and activities in place, by the end of the 20th century, business ethics had become a well-established academic discipline with a large number of U.S. tertiary institutions offering a diverse array of business ethics courses in their curricula. In 2004, this was augmented by the accreditation requirements of the Association to Advance Collegiate Schools for Business (AACSB) requiring accredited business schools to educate their students on business ethics (Ferrell et al., 2011). Likewise, centres for business ethics continued to mushroom, not only in the U.S. but also in other Western countries. Publications, conferences, and seminars on the subject also increased significantly.

In the wake of huge waves of corporate scandals, various regulatory agencies had time and again taken action to deal with the increase in ethical issues by coercing and persuading the corporations to improve their governance and control mechanisms (Ball, 2009; Berd, 2010; Harvard Law Review, 2003). The U.S. government enacted various legislation and guidelines to regulate business conduct. For instance, *The Foreign Corrupt Practices Act (FCPA) 1977* was passed when there emerged major ethical issues such as bribery, price collusion, deceptive advertising, product safety, and ecological degradation. The Treadway Committee Report (1987) recommended corporations work toward better governance by forming ethics committees, installing ethics officers and providing ethics training to all concerned. The *Federal Sentencing Guidelines for Organizations (FSGO) 1991*, which was regarded as the first piece of government regulation, set the tone for organisational ethical compliance programmes and encouraged many companies to develop codes of ethics. When the Enron debacle unfolded, the *Sarbanes-Oxley Act (SOX) 2002* became the most far-reaching legislation with regard to organisational control and accounting regulations since the *Securities and Exchange Act 1934*. An increasing number of corporations responded to the call for governance betterment by implementing a range of measures such as a written code of ethics, ethics committees, ethics officers, ethics training programmes, and monitoring and reporting systems.

The 1990s also saw self-regulation becoming more widespread among the business community due to increased globalism and deregulation. The domain of business ethics became more complicated as the existing national value structures and corporate ethical values had to be adjusted to fit into the new global changes (De George, 2006; Commers

et al., 2008; Ferrell et al., 2011). Concerned about their public image, many corporations had made the adjustments to reflect their concerns for ethics.

The efforts at improving the business ethics environment have attracted many like-minded individuals, groups, and institutions from various disciplines (De George, 2006). Previously it related to the contributions made by business academics (inclusive of accounting, economics, and management professors), non-business people like philosophers, sociologists, politicians, environmentalists, and members of the clergy of all denominations. Their involvements were significant, not only in terms of their teaching and research in informing the subject matter of business ethics (as evidenced in the number of courses on offer and the volume of writing in the subject), but also in their indomitable support of the cause of the business ethics movement. The media also played their part by acting as “moral barometer” for society through their dissemination of information about business ethics. Big businesses, particularly those who were perceived as instigators of social ills, had also used this cause as a platform to redeem themselves and improve their ethical image (for instance, Wal-Mart).

Further, during the economic hard times in the early part of the 20th century (for instance, the 1929 stock market crash and the Great Depression), many religious groups also came to the aid of the government. They took on the mantle of looking after the “lost flocks,” applying their Christian morals not only to business, but also to government, politics, the family, and all aspects of life. For instance, the Protestant work ethic mentioned earlier thus served the capitalist system as a model to encourage individuals to be frugal, diligent, and self-reliant, and to persevere to get through the economic hard times. In the same vein, philosophers increased their involvement by applying ethical theory and philosophical analysis to structure the discipline of business ethics in the 1970s (Cavanagh, 2004, 2010; Ferrell et al., 2011). Such contributions had both enriched and facilitated the development of the business ethics movement. Most importantly, they had helped lay the groundwork for the emergence of business ethics as a special field.

A lot has been achieved by the business ethics movement since the 1970s as a result of the concerted efforts of all concerned. The mission of the movement to generate constructive ideas and strategies has eventuated in the institutionalisation of business ethics, the development of the subject as an academic field, and the positive response of

corporations to legislative and popular demands. A most significant development is the widespread adoption of the code of ethics. However, evidence of the evolution of business ethics over the past centuries suggests that business ethics issues will always be a challenge for the business community (Bakan, 2004; Harvard Law Review, 2003; Hunt, 2003). If business ethics is to remain relevant, it must change its focus and chart its directions accordingly. The evolution of business ethics (moral concepts and rules) in Western countries is presented in Table 2.1.

Table 2.1 is a conceptual explanation of the evolution of business ethics. It is closely linked to Figure 2.1 (the roots of business ethics) where moral concepts and rules are deemed necessary to provide the guidance for sound ethical behaviour as they help restrain the self-interest tendency of human nature to achieve social stability. The table highlights the various influences – religious, philosophical, economic, and others – that have played important roles in the evolution of business ethics in the Western economies from ancient times to the present. Two broad periods – pre-industrial era and post-industrial era – are used to illustrate the different environmental impacts on the development of business values, beliefs, and norms over time. The table shows us that although the nature of business problems has changed due to the change in the socio-economic-political environments, the essence of business ethics appears unchanged with many traditional values still exerting influence on the institutional fabric of social and economic life. History provides us with an opportunity to reflect on our past, to contemplate our present, and to envision our future. It offers a perspective on how the moral problems inherent in business and human nature remain despite continual public concerns about ethics.

2.5 THE EMERGENCE OF CORPORATE CODES OF ETHICS

There is no time in the history of civilisation when the theme of business ethics has had a more critical and pervasive significance than the period since the mid-20th century. This obviously stems from the ever-increasing complexity of the economic relationships, and the critical impact of these relationships on the whole society. Major corporations are perceived to be exerting enormous power and the rest of society does not share the fruits of the current capitalistic system (Bakan, 2004; Jackson & Nelson, 2004; Rowland, 2005; Tapscott & Ticoll, 2003).

TABLE 2.1 *The Evolution of Business Ethics in Western Countries – A Conceptual View*

Motivation “good” life (harmony)	Contributing Forces	Pre-Industrial Era			Post-Industrial (Modern Era)	
		Ancient Era (8000 B.C. – 500 A.D.)	Middle Ages (5 th -16 th centuries)	Reformation (17 th -18 th centuries)	19 th century	20 th century - Present
Salvation	Religious	Strong sense of God and community Suppress evil tendency (<i>Greed, Theft, Immoral acts</i>)	Strong sense of God and community Against wealth accumulation and usury	Catholic values Protestant ethic (<i>Honesty, Hard work, Self-control, Fragility, Sense of duty</i>)	Catholic values Consolidation of Protestant ethic	High moral standards according to the Bible
	Philosophical	Judaism Christianity (Catholicism)	Catholicism	Catholicism Protestantism (Lutheranism and Calvinism)	Catholicism Protestantism	Catholicism Protestantism Other religious groups
Good livelihood	Economic	Virtue Justice Rights “Just price” Against usury	Virtue Justice “Just price” Fair treatment Against usury	Rights Duty Utilitarianism Social contract Social justice	Rights Duty Utilitarianism Justice	Utilitarianism Absolutism (<i>Duty</i>) Rights Virtue Justice (<i>Social contract</i>)
	Social and otherwise	Plato, Aristotle, Augustine	Aquinas Machiavelli	Hobbes, Hume, Locke, Kant, Smith, Marx	Bentham J S Mill	Rawls Others
Harmonious and ethical society	Economic	“Golden Rule,” Honesty, Cooperation, Trust, Reciprocity, “Fair trade,” “Just price”	Same as previous era Rules of “the game”	Same as previous era Individualism (<i>Economic freedom</i>)	Capitalistic spirit (<i>Individualism, “invisible hand,” Self-interest</i>) Economic efficiency	Same as previous era
	Social and otherwise	Crude forms of economic life (<i>Guilds, Fairs, Commerce</i>)	Feudalism Mercantilism	Smith Industrialisation Trade and commerce	Smith Democratic and scientific ideas	Globalisation Other market forces
Harmonious and ethical society	Social and otherwise	Custom - (<i>Honesty, Integrity, Fairness, Trust, Responsibility</i>)	Custom - (<i>Honesty, Integrity, Fairness, Trust, Responsibility</i>)	Custom - (<i>Honesty, Integrity, Fairness, Trust, Responsibility</i>)	Custom - (<i>Honesty, Integrity, Fairness, Trust, Responsibility</i>)	Same as previous era Accountability Codified ethics
	Social and otherwise	Government requirements Religious injunctions Personal virtues Philosophical concepts	Government requirements Religious injunctions Personal virtues Philosophical concepts	Government requirements Religious injunctions Personal virtues Philosophical concepts	Government requirements Religious injunctions Personal virtues Philosophical concepts	Government requirements Interest groups Business ethics movement (<i>Social concerns, Academia, Interdisciplinary effort</i>)

History has clearly shown us that a lack of moral restraint among some of those wielding the power could be the root cause of the most serious social problems. However, as Calkins (2000) observed, while western business ethics had become increasingly less theological and more philosophical, social scientific, and issues-driven, the philosophical “world of ideas,” and the religious “world of ideals” could still enrich the moral discussion of business practices as they could help to transform economic systems toward the more effective service of others.

The business ethics movement described earlier clearly reflects society’s disillusionment toward business behaviour. A major challenge for the business community, particularly major corporations, is to recognise the critical problems and commit themselves to an effective and timely response. Failing to do so would damage their reputation and even threaten their survival. As part of the more conspicuous part of the business ethics movement, ethics codes are designed and implemented to ensure self-restraint and self-regulation on business in order to uphold trust, to protect the public interest, and to preserve the life styles of democracy and capitalism. As mentioned earlier, many corporations (including the sample companies in this research) had responded to the calls for ethics reforms by producing codes of ethics. However, some seemed to have done so simply as a public relations exercise. For instance, Enron’s 64-page code of ethics enshrining its core values as “Respect, Integrity, Communication, and Excellence” was found to be a sham when its fraudulent activities were unravelled.

2.5.1 The importance of business values

Companies are expected to perform specialised tasks through legitimate means for the common good. Since companies are the most visible custodians of the capitalist system, their conduct and ethics (including those of their managers) have major influence on the economic system. Power should accompany responsibility. The enormous impact of business on society and the environment make business accountable to the public, therefore they have to accept responsibility as they have the obligations to act morally and to respect the interests of society (Jones & Pollitt, 1998).

The neo-classical economic model with its free market ideology has frequently been blamed for the fixation on profit maximisation (Cavanagh, 2010). Companies need to comply with externally-imposed mechanisms such as the law and to voluntarily conform

with traditional social values such as trust, honesty, goodwill, cooperation, altruism, restraint, duty, obligation, justice, fairness, and so on (Kitson & Campbell, 1996). Milton Friedman (1970) argued that profit maximisation represented the social responsibility of business because in maximising profit, managers fulfilled their legal obligations to shareholders and promote society's welfare as explained by the "invisible hand" doctrine.

Based on the same logic, it has also been argued that corporations have social responsibilities to other stakeholders such as employees, consumers, suppliers, competitors, the community, the society at large, and the environment. These other obligations, together with profit maximisation, help to define the economic, social and political power of the corporation. However, the morality of individuals should not be separated from the morality of business procedures and institutions. People are moral agents. Their actions are governed by rules, explicit and implicit, which can be subjected to ethical appraisal (Byron, 2006; Jones & Pollitt, 1998; Khurana & Nohria, 2008).

A major contribution to the business ethics movement by corporations, which have responded to calls for ethics reforms by discharging their moral obligations through incorporating at least some of the trappings of ethics into their structure, is in the form of a code of ethics.

2.5.2 The development of corporate codes

The development of corporate codes must be examined in conjunction with the "ebb and flow" of interest in business ethics. Although the first corporate codes appeared almost a century ago, major developments did not take place until the last thirty years when the business ethics movement was in full swing. The two most frequently-cited early codes are the J.C. Penney Creed and the Johnson & Johnson Credo. The J.C. Penney Creed of 1913 was a manifesto of the commitment of the founder's corporate philosophy in its seven statements. This Creed exemplified a pledge of service, loyalty, honesty, integrity, and moral leadership both within and outside the company (Oliverio, 1989). The Johnson & Johnson Credo of 1943 was the brainwork of General Robert Wood Johnson who guided the small, family-owned business to a worldwide enterprise. The Johnson & Johnson Credo outlines the firm's basic responsibilities, with duty to its customers listed as the top priority.

In as early as 1922, there were no less than fifty codes of various trade and commercial organisations in the U.S. (Graves, 1924). They were quite crude in nature when compared to current standard. However, it was an indication that high moral principles were considered a great asset and of the highest importance to any business or professional man. It was generally believed that if a code of ethics served its purpose in maintaining the faith of man in man by raising and helping to maintain the common requirements of honour and fair dealing, then it was “a kind of Golden Rule, *expanded, and concretely and definitely applied to the particular conditions of a particular business*” (Graves, 1924, p. 50; Italics original).

Following the J.C. Penney and Johnson & Johnson examples, many corporations in the 1950s started to introduce creeds or credos as a way to set an ethical climate (Benson, 1989). Understandably, there are numerous reasons why corporations produce codes of ethics. There may be endogenous motivations such as observing good corporate citizenship to contribute to social stability, improving corporate reputation, and consolidating social control through formalising norms of acceptable business behaviour. Corporations are also subject to a raft of external influences: growing public pressure, media scrutiny, and legislative demands. Intrinsic motivations sometimes are not easy to identify, as they are not as conspicuous as the external forces.

Public pressures for a more ethical business environment have been recurring regularly in the Western countries particularly in the U.S. Corporate scandals involving major organisations have recurred regularly since the 1960s. With each outbreak of scandals, public outcry for ethical reforms was widespread. Very often, these calls for ethical redress had been fuelled and reinforced by the “social conscience” role assumed by the media. However, many codes were developed in response to legislation or to the persuasion of influential bodies having a major impact on corporate affairs. For example, a considerable number of codes dating from the 1970s were developed in response to a series of corporate bribery scandals that culminated in the enactment of the FCPA in 1977¹⁶ (the first piece of legislation that attempted to control the action of U.S. corporations in foreign countries) and the *Sullivan Principles* (a set of ethical principles compiled by General Motors and a group of other U.S. companies to govern their actions in South Africa). The latter has since become a model for other voluntary codes of ethical

¹⁶ This was mentioned earlier in Section 2.4.3.

conduct by companies in a variety of other ethically questionable circumstances (De George, 2010).

The moral strife created by high “white collar” crime rates and low business ethics in the 1980s had seen academia, regulators, business leaders, and accounting professional bodies push for ethics reform. This resulted in an 80% adoption rate of codes of ethics (Benson, 1989). It was also at this stage that many companies started to supplement ethical codes by instituting ethics training for their employees (De George, 2010). Corporate codes of ethics had proved attractive particularly in times of crisis. For instance, the 1984 Union Carbide disaster in Bhopal, India, led to the adoption of a voluntary code of ethical conduct in the chemical industry, and in the U.S., the insider trading scandals and the defence procurement fraud crisis led to the institutionalisation of corporate codes as a strategy to mitigate unethical corporate behaviour. In reviewing the fraudulent financial reporting activities in the 1970s and 1980s in the U.S., the Treadway Commission (1987) recommended the adoption of a code of corporate conduct to ensure proper financial disclosure. In particular, the U.S. FSGO took the approach of providing an incentive for corporations to incorporate ethical structures within their organisations by including a code of ethics or conduct, a highly-placed officer in charge of oversight, an ethics training programme, a monitoring and reporting system (such as a “hotline”), and an enforcement and response system. The FSGO are often credited for the significant increase in companies adopting corporate codes since the 1990s (Campbell & Kitson, 2008; De George, 2010). It was reported that by this time, 90% of Fortune 500 companies and approximately half of all other companies had some type of code (Harvard Law Report, 2003). Despite the faith the legislators and the public have in the deterrent capacity of corporate codes, financial scandals were still regular occurrences at the onset of the 21st century. A more recent attention to corporate codes came in the SOX at the demise of Enron and other financial scandals involving prominent corporations. The Act made corporate codes more visible, and subjected senior corporate officers to more rigorous scrutiny and severe penalties in regard to the adoption and violation of corporate codes.

The business ethics movement was not solely confined to the U.S.; nor was the prevalence of corporate codes of ethics. Other countries (particularly in Europe, like the U.K.) have initiated business ethics movements of their own. Some of these European

countries have also adopted regulation similar to that of the U.S. International organisations, such as the Organization for Economic Cooperation and Development (OECD) and the United Nations (UN), also have their own codes of corporate conduct to deal with ethical issues in the global economy. The UN developed a voluntary Global Compact for Corporations in 2000. The Compact, which was endorsed by all governments, contains nine guiding principles focusing on human rights, labour standards and the protection of the environment. Over 1,500 companies worldwide have joined the Compact (De George, 2010).

The contents of the early codes (J.C. Penny and Johnson & Johnson) expressed the moral commitments of the founders to their customers in terms of quality services and products. They reflected the custom of doing business – norms/rules that have been accepted over the years. The contents of modern corporate codes tend to fall into five broad areas: stakeholder responsibilities, stakeholder principles, corporate values, internal employee conduct, and implementation and compliance of rules (Kaptein, 2004). *Stakeholder responsibilities* express the company's responsibilities to consumers, investors, employees, suppliers, competitors, society, and the natural environment. *Stakeholder principles* are principles governing the relationship between company and stakeholders which include transparency, honesty, fairness, and trust. *Corporate values* refer to those qualities a company deems desirable to guide business conduct and outcomes. *Internal conduct* specifies what is expected of employees in their engagement with their peers and their treatment of organisational assets and core values. *Implementation and compliance* highlight the mechanics of how the code is implemented and monitored. The focus of corporate codes often depends on the nature of the company. Some codes may lean toward general matters, such as employee issues, legal matters, organisational status and actions in the market, and responsibility to society (Weaver, 1993). Some may pay more attention to corporate governance rules, conflict of interest, confidential information, gifts, and political contributions while others delineate business goals and sketch ethical boundaries (Harvard Law Review, 2003). Campbell and Kitson (2008) observed that the philosophical basis of these codes appeared to be eclectic in nature. Some codes have adopted a variety of philosophical traditions, combining utilitarian and deontological statements¹⁷ with some drawing on the Golden Rule and prudential approaches. Others

¹⁷ Utilitarian statements (theories) take a consequentialist approach and define the moral rightness of an action by its results. If its consequences are good, then the act is right; if they are bad, the act is bad. Conversely,

appeared to be developed from a defensive posture by senior management and tend to have a prudential tone with some basis in utilitarian theory relating to issues about corporate reputation, status, founder's philosophy, organisational vulnerability, and some other circumstantial matter unique to the firm (Campbell & Kitson, 2008). The business ethics literature on corporate codes reveals three major traditions: (1) practical guidance for effective use of corporate codes; (2) the impact of corporate codes on business practice from a variety of perspectives; and (3) the use of ethical theories to analyse corporate codes (Campbell & Kitson, 2008).

In summary, corporate codes have come a long way to their present codified form. They have evolved from simple moral concepts and rules developed to regulate business conduct in comparatively simple settings to being enshrined in formal corporate codes expounding on the company's intention to encourage ways of thinking and patterns of attitudes that lead to the desired behaviour. Even though the business environment has become more complex and code instrumentality has shifted over the years to reflect different environmental demands, they are still regarded as an essential tool of managerial control. They can still claim their intellectual lineage back to Christian-based values, philosophical principles, and the economic-ethical concepts of Adam Smith. Ethical values are still an essential part of a market economy, and the religious, philosophical, and economic/secular roots that have contributed to the evolution of corporate codes can still be traced in the variety of contemporary corporate codes. Most importantly, they still carry the mantle to do the same thing as what moral concepts and rules were set out to do so many centuries ago – to provide moral guidance for good business behaviour by all concerned for the public good.

2.6 CHAPTER SUMMARY

This chapter examines the evolution of business ethics, in particular, corporate codes of ethics, focusing on its fundamentals and the circumstances under which it evolved. Modern business ethics has a history as old as human civilisation and it has undergone evolution from crude pre-medieval forms to the current complex codified systems. During the evolutionary process, it has been significantly influenced by a range of religious, philosophical, economic, political, and social forces. Table 2.1 has provided a

deontological statements (theories) are non-consequentialist in approach. They contend that right and wrong are not determined by the likely consequences of an action as there are other factors that are relevant to the moral assessment of an action.

simplistic illustration of this evolution.

In Ancient Greece and the Middle Ages, philosophy and religion were important in guiding human behaviour, including that of business people. Adherence to the religious convention and the philosophical principles was necessary for an orderly communal life. Despite the break-up of Christian unity during the Reformation era and the decline in religious faith in recent times, the influence of religion is still significant. Philosophical teachings are equally as indomitable as religious doctrines. A great many ethical theories about what is right and what is wrong have survived over the years. Three major approaches have been adopted for contemporary ethical analysis – Utilitarianism (consequentialism), Absolutism (non-consequentialism) and Aristotelian virtue (Campbell & Kitson, 2008; Ferrell et al., 2011). Many of the corporate codes are designed using one or a combination of these ethical theories as their underlying theme.

This historical review also provides useful insights into the economic-ethical underpinnings of capitalism, in particular, the contentious issue of “self-interest,” which has been considered its major flaw. The spread of capitalism, with the competitiveness of corporations and their self-interested economic agents, has raised fears about the lack of moral restraint and the potential negative impact of corporate actions on the welfare of society. Particularly in the past few decades, these fears have been translated into open criticisms of the modern corporation: for being unresponsive to its stakeholders, for enjoying a symbiotic relationship with the government, for failing to provide employment for all those who want to work, for promoting a biased distribution of income, and for plundering the planet with a voracious appetite for resources. The discussion in this chapter reveals that morality is not opposed to self-interest. Rather, it helps to enlighten our pursuit of it. This begs the question: have capitalistic pursuits damaged the welfare of humanity, or has the neo-classical economic version of capitalism lost control?

Indeed, there is a paradox between the self-interest and morality of capitalism. In an economic sense, capitalism has brought forth progress through the self-interest of capitalists. In enriching themselves, they have also brought benefits to the rest of society. However, unfettered capitalism, that is, the unrestrained self-interest of capitalists has obviously created immense misery and aggravated the issues of inequity and exploitation.

As society evolves over time and business activities increase in complexity, business ethics becomes a necessity, not because it is fashionable, but because ethical concerns unavoidably permeate all business activity. The moral progress of society depends not on running from the issues but in combating them (Oosterhoff, 2001). As such, the business ethics movement is a natural outcome of this evolutionary process. With sustained commitment to the cause, the concern for ethics in business will continue. The prevalence of corporate codes of ethics is an indication that the presence of ethical values is an essential part of a market economy.

Plato's remark that only knowledgeable people can be good (that is, ethical) has a special poignancy at the present time when the greatest proportion of the population in the Western world is "knowledgeable" (see Gray, 1990, p. 19). A lot has been accomplished since the business ethics movement started, but there is still more to do. In this ever-changing global environment, corporations are not rule and goal static entities. Their rules and goals (including moral rules and goals) are contingent on time, place, and circumstances. As such, rules and goals must be constantly reviewed so that new ones can be created to suit current demands and expectations. In the course of time, this will form part of the evolutionary process as an element of "continuity" linking the ethical past to the future.

As the first part of the macro-level discourse analysis of the broad context of corporate codes, this chapter has traced the roots of corporate codes of ethics in religion, philosophy, and economics, and highlighted some of the ethical concerns permeating business activities. This has paved the way for the next chapter – Part two of the macro analysis on the important roles of trust and ethics in modern economies.

CHAPTER 3

TRUST AND ETHICS IN MODERN ECONOMIES

3.1 INTRODUCTION

Chapter 2, as the first of a two-part *macro*-context analysis of the discourse of corporate codes of ethics, has provided an overview of the evolution of business ethics. It has examined the religious, philosophical, economic, and secular roots of moral/ethical concepts, rules, and principles in business. This chapter completes the *macro*-context analysis by delving into two important elements in conducting business in modern economies – trust and ethics. It has been highlighted in Chapter 2 that self-interest (or selfishness) is one of the corrupt characteristics of human nature (MacIntyre, 1998) and, over the years, ethical concepts have been developed by religious leaders, moral philosophers, business linchpins, and even through custom to serve as a means to constrain human’s self-interest motives in the conduct of social and economic life. Embedded in these moral/ethical principles is the element of trust, which is the focus of this chapter in light of its link to business ethics and its relevance in today’s increasingly complex environment.

Trust has always been important in human existence (Luhmann, 1979). Since humans are social beings, their capacity to cooperate and trust is one of the most important components of a good (social) life (Axelrod, 1990). Recurring ethical lapses by those in positions of power and responsibility are often perceived as a social complexity (Luhmann, 1979) creating an atmosphere of caution, wariness, and circumspection among the general public (Bibb & Kourdi, 2004; O’Neill, 2002). With every outbreak of ethical transgressions in business, there were always calls for ethics reforms with the imperative of restoring public trust. The “post-mortems” of such transgressions have always found a short supply of the sense of integrity among the business community. Urgent calls for strategies to redress the perceived lack of corporate integrity (Koehn, 2005; Lorsch et al., 2005; Paine, 2003) became one of the major forces propelling the business ethics movement in reaffirming the moral mandate of market managerialism.¹⁸

¹⁸ As discussed in Chapter 2, the world economy has undergone fundamental changes in the post-industrial era (particularly since the latter part of the 20th century with the growth of large global corporations). Currently, we live in a period displaying traits of a new financial capitalism where more people than ever before participate in financial markets. When ownership is widely dispersed, there emerges a new managerial class acting as agents “to create shareholder value.” “Managerialism” is a situation when these managers use the entrusted resources for whatever purpose they see fit (Davis, 2009). When managerial actions are based solely

Trust is a somewhat neglected issue as, in its intangible form, its presence has always been taken for granted (Baier, 1986; Bibb & Kourdi, 2004). In some religions, trust is expressed in the form of undivided faith, by the devout in their creator-God, the powerful almighty person on whom they depend for their salvation. This trust in God, so embedded in the theological literature, is of limited help in understanding trust in human relationships (Baier, 1986). Even the moral philosophers mentioned in the previous chapter, such as Plato, Aristotle, Aquinas, Locke, Hobbs, and Kant, only implicitly related to trust as something that existed in cooperative activity between people in the conduct of social life (that is, in normal social life). Nowhere in their philosophical expositions had they provided a moral theory of trust. Since social behaviour necessitates some cooperative activity, the development of trust is inevitable. For example, any social or economic exchange requires the participants or co-operators to trust one another to “do the job.” Plato, in the *Republic*, implicitly expected the majority of citizens to trust the philosopher kings to rule wisely and the élite to trust their underlings not to ruin their comfortable living (Baier, 1986). He did not define the concepts of trust or trustworthiness formally but included them as the virtues he regarded as necessary in the cooperating parties in a “good society.” For example, his version of justice and the cooperation between the ruler and the ruled seems to imply trust as a virtue. Aristotle also implicitly recognised the importance of the role of trustees and the need to cultivate trust in his portrayal of the virtuous person. However, he explicitly condemned tyrants for sowing seeds of distrust. Further, Thomas Aquinas and other Christian moralists had also preached for the trust in God by transforming earthly desires for moral ends in practising the virtues of faith, hope, and charity (Baier, 1986; Herman, 1992). Furthermore, others, such as Locke, looked at trust in governments and officials (the bureaucratic aspects) while Hobbs explored the notion of trust in contracts and contractors (Baier, 1986).

While the process of trust building has not drawn much attention, as it is neither prominent nor conspicuous, the loss of trust is comparably more noticeable. In recent years, critical incidents such as corporate abuses and global economic crises have repeatedly triggered off vehement public outcries about business misdeeds (Arvidsson,

on self-interest, they could create ethical issues undermining public trust in the integrity and fairness of the capitalist system, as evidenced by recent financial crises. As such, there are questions about the function, accountability, and legitimacy of the managers and the call for a “Hippocratic Oath” for managers (see Khurana & Nohria, 2008).

2009; Ball, 2009; Bibb & Kourdi, 2004; Lorsch et al., 2005; Paine, 2003; Zingales, 2009). With strong condemnation from the public signalling a decline in public trust, there is increasing awareness of the significance of trust in economic exchange and its flow-on effects on social life. Only in critical times will one realise the damage that such outbreaks can do to individuals, corporations, government, and society. The increased social complexity created by the globalised business world has indeed highlighted the relevance of trust as a key ingredient in mending and sustaining social and economic relationships (O'Hara, 2004; O'Neill, 2002).

Ethics scandals in recent years have tarnished the reputation of a large number of social institutions particularly the large corporations (Harvard Law Review, 2003; Kramer, 2012; Lorsch et al., 2005; Olsen, 2004). To emphasise accountability for anticipating and responding to ethical crises, many of these corporations have taken the initiative to manage trust by setting up boundary systems embedded in standards of ethical behaviour and codes of conduct (Simons, 1995). Such systems are especially critical in the complex global business environment in which a reputation built on trust is a key competitive advantage. The aim of this chapter is to examine the important role played by trust in contributing to the well-being of the modern economies. The next section conceptualises the nature of trust by examining the essential characteristics of trusting relationships. Section three examines the breakdown of trust caused by self-interested and opportunistic behaviour of corporate participants. It also looks at the role of accounting and finance in the decline of trust and ascertains the impact on trust relations involving the trustee and the trustor. Section four discusses the relevance of trust in the new economic order (modern economies) examining why ethics is the foundation of trust, how business ethics and trust are essential ingredients for a healthy business environment, and what ethical limits trust encounters in business relations. Section five highlights the need to redress the social problems caused by the loss of trust in the contemporary economies. Section six draws some conclusions.

3.2 THE NATURE OF TRUST

Over the years, researchers from diverse disciplinary backgrounds have studied the concept of trust and accepted it as an important foundation for business and personal relationships as it can play a constructive role in explaining social behaviour, institutions, or social and political change (Nannestad, 2008). Many researchers have considered trust

an all-persuasive issue, difficult to create, easy to destroy, and even more difficult to rebuild. Many have found the concept difficult to define. Disciplinary differences and their divergent assumptions are the reasons why there is a lack of a generally acceptable definition of trust (Hosmer, 1995; Nannestad, 2008). For instance, economists tend to view trust as calculative (Williamson, 1993). Psychologists view it in terms of the behavioural attributes of trustors and trustees (Rotter, 1967; Tyler, 1990). Sociologists often frame trust in socially embedded properties of relationships among people (Granovetter, 1985), a concept “essential for stable social relationships” (Barber, 1983; Blau, 1964; Luhmann, 1979), and the “maintenance of cooperation in society” (Axelrod, 1990; Baier, 1986; Zucker, 1986). Some have regarded it essential to economic prosperity and growth in society (Fukuyama, 1995; Lyons & Mehta, 1997; Putnam, 1993; Uslaner, 2002) while others consider it an important prerequisite of the ethical economy (Arvidsson, 2009; Carnevale, 1995).

Although these scholars have studied trust under different contexts, they have arrived at similar conclusions – showing a “degree of convergence” (Hosmer, 1995). First, trust is expressed as an optimistic expectation on the part of the trustor (that is, the trusting party) about the outcome of an event or the behaviour of the trustee (that is, the party entrusted with the trust). Second, the trustor is well aware of the risk involved, accepts the vulnerability of such optimism, is dependent on, and has confidence in the goodwill of the entrusted party (that is, the trustee). Third, trust is associated with willing, not forced, cooperation between the parties concerned entertaining the view that mutual benefits will result from this cooperation. Fourth, it is believed that there is an implicit promise by the trustee not to bring harm to those trusting parties and to act to look after their interests. In order to understand the role of trust in contemporary business relationships, it is necessary to have a clear conceptual understanding of what trust is and how the essential characteristics of trust relate to each other. The following sections examine the characteristics of trust, the trusting relationship, and the factors concerning the trustor and the trustee.

3.2.1 The characteristics of trust

Humans are fundamentally social creatures who rarely exist without social contact (Calton, 2012; Cianci & Kaplan, 2008). Ideally, social contact leads to cooperative relationships based on trust, which helps to lay the groundwork for social cohesion.

Adler (2001) has studied the concept of trust and classified it into four dimensions: *sources*, *mechanisms*, *objects*, and *bases*. “Sources” and “mechanisms” relate to the generation of trust; “objects” are the targets of trust; and “bases” represent the perceived qualities of the objects. There are three *sources* of trust: (1) familiarity through repeated interaction, (2) calculation based on costs and benefits, and (3) trustworthiness engendered by values and norms. Closely related to the sources of trust are three *mechanisms*: (1) direct interpersonal contact, (2) reputational effects, and (3) institutional context. There are three generic *objects* of trust: (1) individuals, (2) an impersonal system, and (3) a collectivity such as an organisation. Finally, there are some common *bases* of trust such as ability (competence), benevolence, and integrity. All these four components are intricately related within their own components and with other components. This chapter uses such a categorisation to highlight the essential concepts related to the trusting relationship, as shown in Table 3.1.

TABLE 3.1 *The Nature of Trust*
(Adapted from Adler, 2001)

DIMENSIONS	COMPONENTS	TRUSTEE (Individuals/Systems)		TRUSTOR (Individuals/Systems)	
		Claim to trustworthiness	Expected actions	Disposition to trust	Attitude/Behaviour
<i>SOURCES</i>	Familiarity through repeated interaction Calculation based on interests Norms that create predictability and trustworthiness				
<i>MECHANISMS</i>	Direct interpersonal contact Reputation Institutional context		Cooperation Mutual benefits Reciprocity		Rational Cognitive Emotional
<i>BASES</i>		Ability Benevolence Integrity	Promise keeping Goodwill Fiduciary duties Honesty Openness	Expectation Willingness Vulnerability	Optimism Dependence

A salient feature of social existence is that people are dependent on others in various ways to achieve personal and/or organisational goals. This interdependence is normally characterised by a relationship formed between two parties, namely, the trustor and the trustee. In Adler’s (2001) terminology, they are “objects of trust” comprising individuals, systems, and collected groups such as organisations. This is not dissimilar to Giddens’ (1990) classification of two forms of trust: trust-in-person and trust-in-system, where

“confidence in the reliability of a *person* or a *system*, regarding a given set of outcomes or events, where that confidence expresses a faith in the probity or love of another, or in the correctness of abstract principles” (p. 34). Based on these generic objects of trust, a trusting relationship can be formed in the following ways: “person to person,” “person to group,” “group to group,” or “firm to firm.”¹⁹ Such a relationship is important as it facilitates the social or economic exchange in human interaction. An important element of this relationship is the concept of trustworthiness, which is the amount of trust the trustor decides to bestow on the trustee. To understand the working of the trusting relationship and the role of trustworthiness in this relationship, it is necessary to delve into the characteristics of the trustor and the trustee, the factors influencing the relationship, and the various types of trust employed by the parties concerned.

3.2.2 Perceived attributes of the trustor

Some trustors are more likely to trust than are others due to their personal qualities and/or cultural norms. Trusting relationships involve a person’s general willingness to trust others. This necessarily involves an expectation. When a person trusts another person, a group, or a system, it means that he/she has confidence that his/her expectation will be realised, that the trustee will act benevolently by exercising goodwill to fulfil the expectation (that is, keep the promise to accomplish what is expected). In entrusting the trustee to do something, the trustor cherishes some optimistic expectation or confidence about the outcome of an uncertain event, process, or person (behaviour). It is based on the assumption of what one is familiar with (that is, prior experience). Trust in people or system enables one to feel free to act without trying to process more information about the world than one is capable of doing. In trusting, it would appear that uncertainty is reduced (although it may not be the case) (Luhmann, 1979). The decision to trust may be the result of a rational act or a non-rational one. Either way, such a decision is made freely and voluntarily, without coercion. If the trustworthiness of the trustee is established through a repeated pattern of “keeping promise,” then the level of trust on the part of the trustor will increase. As such, the trustor is dependent on the trustee to fulfil his/her optimistic expectations.

However, this dependence is not risk-free. When one depends on another’s goodwill, one

¹⁹ The term “system” is used to include all kinds of systems and organisations. Kramer (2012) has used the term for institutions in his analysis of institutional trust failures.

is vulnerable to the limits of that goodwill (Baier, 1986). No matter how optimistic the trustor is, there is always some uncertainty that the expectation might not be fulfilled. Because the trustor cannot control or force the trustee to perform, there is always a risk that the latter will not act benevolently for the trustor's cause. The trustor is therefore in a vulnerable situation due to his/her dependence on the goodwill of the trustee. To trust therefore places one in a precarious situation – to be optimistic regarding the other party's motivations and/or behaviour while at the same time willing to be vulnerable to the discretionary actions of that party (Mayer, Davis, & Schoorman, 1995). The decision to trust signals the trustor's relegation of control to the trustee. This results in certain risks due to the lack of personal control over the actions of others. This situation is inevitable due to the trustor's lack of expert knowledge in what he/she has entrusted the trustee to do.

3.2.3 Perceived attributes of the trustee

One factor that will affect the amount of trust the trustor has for the trustee relates to the trustee's perceived attributes. In view of the element of risk involved, the trustor must concern him/herself with the trustworthiness of the trustee. Trust is bestowed only after careful consideration of the trustee's ability, benevolence, and integrity (Mayer et al., 1995). As the trustee is entrusted to carry out a specific task, his/her ability is assessed based on the required skills, functional/specific competence, interpersonal competence, business sense, and judgment for that task. Benevolence is assessed based on the extent to which a trustee wants to do good to the trustor, aside from an egocentric profit motive. The relationship between integrity and trust involves the trustor's perception that the trustee adheres to a set of principles that the trustor finds acceptable, which includes personal integrity, a strong sense of justice, and actions that are congruent with his/her words (that is, promise keeping) (Mayer et al., 1995). Prior to and/or during the whole relationship, the trustor has to make a decision regarding the trustworthiness of the trustee to determine whether to initiate or maintain the relationship. In this sense, trust is not the default, but must be earned over time.

The preceding sections have examined the attributes of trustor and trustee that form the basis of trusting relationships. As can be seen from Table 3.1, it is important to distinguish the attributes of trustor and trustee. This enhances a better understanding of the extent to which a person is willing to trust another person. It is equally important to

understand both the trustor's propensity to trust and the trustor's perceptions of the trustee's ability, benevolence, and integrity. However, it must be acknowledged that even though the propensity to trust might be thought of as the general willingness to trust others, people vary in their inclination to trust because of different developmental experiences, personal types, and cultural backgrounds. Conversely, others are unwilling to trust in most situations, regardless of circumstances that would support them doing so. Trusting relationships are valuable, and can be satisfying and productive with the trustor entrusting (having faith) in the trustee to fulfil an expectation or to keep a promise. The following discusses the crucial element reinforcing this situation – the notion of reciprocity.

Reciprocity is central to a viable trusting relationship (Calton, 2012). Reciprocity is manifested in mutual trust when both the trustor and the trustee are perceived to be trusting and trustworthy, that is, showing traits of mutual cooperation with the trusting party receiving helpful or cooperative behaviour from the trusted party. The act of cooperation involves cooperative efforts from both parties. On one hand, the trustor has faith in the competence of the trustee in accomplishing what has been entrusted; on the other hand, the trustee observes the duty of care (that is, benevolently and with integrity) to look after the interests of those entrusted in him/her. While the trustor expects, the trustee reciprocates by fulfilling the promise of a job well done. In other words, the notion of reciprocity works along the line that, in bestowing trust, the trustor expects the trustee to use his/her discretionary powers competently and non-maliciously, and not to mislead the former. In this way, trust is letting other persons, groups, or firms take care of something the trustor cares about, where such “caring for” involves some exercise of discretionary powers (Baier, 1986). Moral philosophers have long emphasised that mutuality is superior to selfishness as a guide to conduct (see also game theory in a Prisoner’s Dilemma²⁰). The reciprocal principle of cooperation has some implications for human interaction in the sense that being “co-operators” whether in personal or business

²⁰ The Prisoner’s Dilemma is a game analysed in game theory that shows why two completely “rational” individuals might not cooperate, even if it appears that it is in their best interests to do so. The concept was introduced by Merrill Flood and Melvin Dresher in 1950, and the game with prison sentence rewards was formalised by Albert W. Tucker. It is a simultaneous-play game with certain and symmetric outcomes (Axelrod, 1990; Noreen, 1988). It has often been used as a model for many real world situations involving cooperative behaviour. Behavioural norms and one’s conscience are used as enforcement mechanisms in some situations where the mutual advantages of implicit cooperation will be apparent to all parties and an implicit (but unenforceable) agreement to cooperate may emerge. It has been found that in prisoner’s dilemma experiments that people who believe others will cooperate are more likely to cooperate themselves (Noreen, 1988).

situation will lead to mutual benefits/advantages in the end (Axelrod, 1990; Hall, 2003, 2005; Herman, 1992).

3.2.4 Factors influencing trusting relationships

Some factors can influence the outcome of trusting relationships, for example, the uneven power positions in the relationship. Because of the elements of uncertainty and vulnerability inherent in the trust relationships, the outcome of the relationship is often dependent on the action of the trustee as it is beyond the control of the trustor. The superior power position of the trustee in the relationship is due to the discretionary power rendered by the trustor. The relative power of the trustee-trustor relationship implies that power can be abused and the trustor may have to absorb the losses should this happen. In situations where the parties are grossly unequal in power, the abuses are commonplace. In civic society of near equals, contracts are used as a safeguard of trust (Baier, 1986). Contracts explicitly stipulate the duties and responsibilities of the parties concerned with the expectation of cooperative efforts. In Hume's view (1978, cited in Baier, 1986, p. 245), contracts strongly imply that it is an artificially contrived and secured case of mutual trust with the intent to creating a climate of trust. Conversely, the use of contracts as a resort to regulate relationships could be construed as a sign of distrust, that is, a breakdown of trust (see Neu, 1991a, 1991b).

Another factor that influences how trust judgements are formed relates to mental processes of cognition and emotion (Hall, 2003; Jones & George, 1998). Not all the variables involved in trust are explicitly in view because the process of trusting is an intentional mental phenomenon (Baier, 1986). Trust has cognitive and emotional perspectives, which help to produce behavioural consequences. To entrust is intentionally and usually formally to hand over the care of something to someone. Cognitivists argue that propensity to trust is based on rationality, accumulated knowledge, and beliefs about the trustworthiness of others based on said knowledge (Hardin, 2006). Cognition focuses on the repeated exchange of benefits or unpleasant experiences between the parties concerned. This process helps to discriminate among persons and institutions that are trustworthy, distrusted, and unknown (Lewis & Weigert, 1985). Trust in a given person or system can grow with favourable reciprocation. Conversely, unfavourable experiences can lead to the termination of trust due to an increase in the degree or level of uncertainty or risk with respect to the action (Baier, 1986; Blau, 1964). The emotional perspective

complements the cognitive base. This affective component reflects the emotional state of human nature that may colour one's perception of trust. It captures how the trusting parties feel throughout their on-going interactions. Emotions are intense affective states that can affect cognitive processes and behaviours (Jones & George, 1998) that are tied to particular events or circumstances. Intense feelings can fluctuate over time to signal changes in the experience of trust, for example, high levels of positive or negative emotion can develop a positive or a negative tone to the relationship. Overly optimistic expectations can lead to a profound sense of betrayal when they are not met, thus leading to highly emotional upheavals. These cognitive and emotional perspectives of trust are not mutually exclusive. Together, they form the supporting aspects of "the one, unitary" human social experience that we simply call "trust" (Lewis & Weigert, 1985). Both perspectives can influence the attitude and behaviour of the trustor's intention to trust based on his/her perceptions, beliefs, and attributions about the trustee's ability, benevolence, and sense of integrity.

Since trust is based on experiences, interactions, and perceptions of people, organisations and institutions, the act of trusting is a temporal phenomenon (Caldwell & Clapham, 2003). Earlier explanations have alluded to trust as the trustor's expectation of goodwill on the part of the trustee, be it a person, a system, or an organisation. The evaluation of trustworthiness ties implicitly and explicitly with one's expectations, acting as the basis of extending the degree of trust, withholding it, or even withdrawing it. Trust is also an attitude reflecting a willingness to assume a risk and relinquish control in the hope of receiving a desired benefit (Caldwell & Clapham, 2003; Giddens, 1990). A number of trust researchers have developed taxonomies of trust to distinguish different types of trust according to their intention (Husted, 1998), for instance, from political, sociological, social psychology, economic, business ethics, and technological perspectives. In the political field, Nannestad (2008) considered two main categories of trust: *rational trust* and *norm-driven trust*. These were similar to Uslaner's (2002) two categorisations of *generalised trust* and *particularised trust*.²¹ Social scientists such as Zucker (1986), Lewicki and Bunker (1996), and Sheppard and Tuchinsky (1996) had their own taxonomies of trust, which were more-or-less on three similar themes. One, *calculus-based* (or *deterrence-based*) *trust* was based on a rational calculation of costs and

²¹ These were extended to include two contrasting types – *moralistic trust* (an unconditional trust to treat others well even in the absence of reciprocity – not based on calculations of utility or risk) and *strategic trust* (with a rational expectation of reciprocity).

benefits. Two, *characteristic-based* (or *identification-based*) *trust* focused on affinity – traits or beliefs shared by the parties concerned. Three, *knowledge-based* (*process-based*) *trust* rests on the experience of repeated patterns of interaction. From a psychological perspective, Jones and George (1998) used a theoretical framework based on values, attitudes, moods, and emotions to identify two distinct forms of trust: *conditional trust* and *unconditional trust*. Research on efficient economic exchange prompted Lyons and Mehta (1997) to develop a theory of trust combining both economic and social perspectives in explaining the role of trust in contracts and opportunistic behaviour. The two theoretical accounts of trust were distinct mechanisms called self-interested trust (SIT) and socially-oriented trust (SOT). In the field of business ethics, Brenkert (1998b) identified three types of trust: *basic trust*, *guarded trust*, and *extended trust* while Koehn (2003), with his focus on the issue related to information technology, highlighted the importance of four types of online trust: *goal-based*, *calculative*, *knowledge-based*, and *respect-based* trust. Table 3.2 sums up these taxonomies of trust as proposed by researchers from six different disciplines.

TABLE 3.2 *Taxonomies of Trust – Different Perspectives*

Political (Uslaner, 2002; Nannestad, 2008)	Sociological (Zucker, 1986; Lewicki & Bunker, 1996; Sheppard & Tuchinsky, 1996)	Psychological (Jones & George, 1998)	Economic (Lyons & Mehta, 1997)	Business ethics (Brenkert, 1998b)	Technological (Koehn, 2003)
Particularised (Strategic) Rational	Calculus-based Deterrence-based Process-based Knowledge-based	Conditional (Purposeful)	Self-interested trust (SIT)	Guarded trust Extended trust	Calculative trust Goal-based trust Knowledge-based
Generalised (Moralistic) Norm-driven	Characteristic-based Identification-based	Unconditional (Innate/Moral authority)	Socially- oriented trust (SOT)	Basic trust	Respect-based

A close examination of all these taxonomies shows that there are basically two main types of trust, both of which are relevant to the issues addressed in this study. One is *generalised* or *basic* trust, and the other is *particularised* or *strategic trust*. *Generalised* or *basic* trust is inarticulate, uncritical, and therefore unconditional. Some researchers argue that this would apply to those who are maximally vulnerable, whether or not they give trust. This type of trust is no different from innate trust, expressing an innate readiness to initially impute goodwill to the powerful persons on whom they depend (Baier, 1986) until something happens to shake or destroy such innocent attitude or confidence. *Particularised* or *strategic trust* is more specific as it is dependent on certain

factors and contexts. For instance, calculative trust can be a type of particularised trust since it is based on self-interested rationality and develops through experience, interaction, and cooperation with benefits in mind while relational type of trust derives from repeated interactions over time emphasising the emotional bonds between the parties (Rousseau, Sitkin, Burt, & Camerer, 1998). Despite the different terminology, all these taxonomies of trust help to explain how trusting relationships are built when people follow through specified commitments. Trust relationships are also determined by many contextual factors such as the stakes involved, the balance of power in the relationship, the perception of the level of risk, and the alternatives available to the trusting party (Caldwell & Clapham, 2003).

However, a trusting relationship will become eroded when specified commitments are not fulfilled or when the trusted party is perceived to be unable or unwilling to act as anticipated. In reciprocal terms to trust, this is called distrust. Distrust results primarily from the trustee's failure in each of the three key attributes of trustworthiness – ability, benevolence, and integrity. It is also caused by other constraints such as behavioural and environmental issues (see Figure 3.1). What this signifies is a loss of trust, or according to Lewicki, McAllister, and Bies (1998), “confident negative expectations regarding another's conduct” denoting “a fear of, a propensity to attribute sinister intentions to, and a desire to buffer oneself from the effects of another's conduct” (p. 439). Trust and distrust are separate but linked concepts. Distrust can be defined as the simple absence of trust, the opposite of (complete) trust,²² and a substitute for or complement to trust (Hall, 2003). Trust and distrust co-exist in all relationships. Both entail certain expectations with the former anticipating favourable or beneficial conduct from the trustees and the latter anticipating unfavourable or harmful conduct. Distrust is highly dysfunctional as it generally signals the beginning of an excessively unpleasant relationship requiring a rebuilding of trustworthiness of the parties concerned (Luhmann, 1979). While distrust may linger, additional actions are needed to restore trust through the feedback loop to counter the ensuing distrust. This relationship is illustrated in Figure 3.1.

²² They could be measured as a continuum on the same positive-to-negative scale although some researchers such as Lewicki et al. (1998) argued that they were not opposite ends of a single continuum.

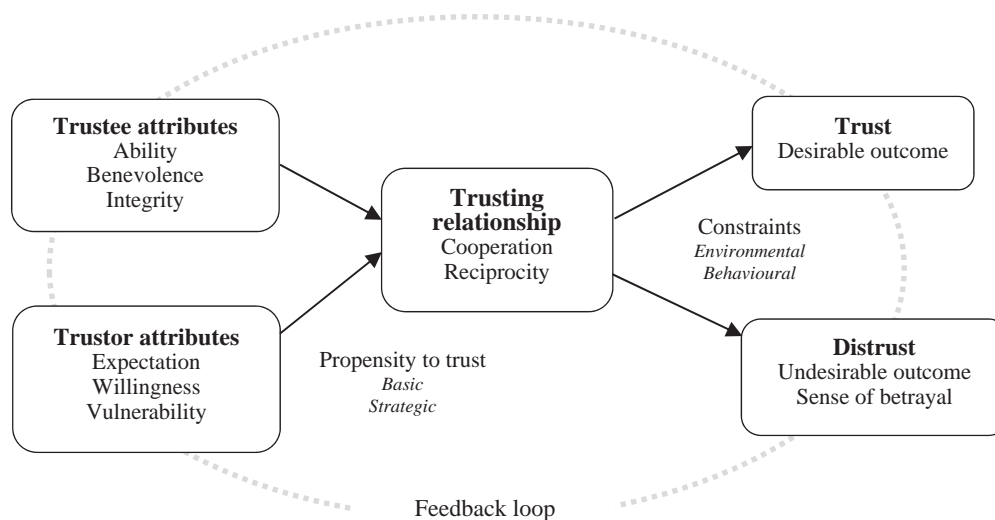


Figure 3.1 The Nature of Trusting Relationships

The following section examines how business and accounting are implicated in the complexities of trusting and distrusting relationships – the breakdown of trust.

3.3 THE BREAKDOWN OF TRUST

Earlier discussion has indicated that trust is functionally necessary for the continuance of harmonious relationships in contemporary business as trusting relationships can create meaning and connections that lead to beneficial consequences. However, many researchers have found that there are some issues related to trust (for example, Baier, 1986; Bell, Oppenheimer, & Bastien, 2002; Bigley & Pearce, 1998; Husted, 1998; Lewiski, Jones & McAllister, 1998). First, trust is fragile. While trust-creation is not conspicuous, trust destruction or violation is, especially when it brings long-term dysfunctionality to the socio-political economy (Bibb & Kourdi, 2004). Second, trust is not a given; it needs to be maintained and nurtured as one incident of trust violation will lead to distrust and mistrust, sparking off the onset of trust deterioration (Baier, 1986; Koehn, 1996). Despite trust's functionality in promoting harmonious social relationships, its actual continuance in any particular social bond is always problematic (Lewis & Weigert, 1985). Luhmann (1979) observed that "Familiarity is the precondition for trust as well as distrust, i.e., for every sort of commitment to a particular attitude towards the future" (p. 19). Distrust is therefore the negative mirror-image of trust. It involves negative expectations about the actions of others (of their harmful, vicious, detrimental actions towards oneself); it also involves negative, defensive commitment (taking protective measures against those distrusted). Mistrust, on the other hand, is a neutral

situation when both trust and distrust are suspended. It signifies the lack of clear expectations, as well as hesitation about committing oneself (Sztompka, 1999).

Lewicki et al. (1998) observed that the challenges of the modern global marketplace focus on “the simultaneous management of trust and distrust in a hostile environment in which individuals may be just as inclined to distrust as they are to trust” (p. 439). The volatile business environment in the past few decades has witnessed a rise and ebb of trust. During boom times, there was high trust. When times were bad, distrust was rife, often with distrust being a major contributor. Over the past few years, people around the world have witnessed spectacular and catastrophic financial disasters and felt an acute decline in trust in the business community. Some have attributed them to the financial losses caused by the dramatic failures of the Enron era even though such a decline has already been underway in the latter half of the 20th century in the wake of a number of corporate collapses and scandals involving well-known corporations. For instance, the Penn Central and Equity Funding (U.S.) in the 1970s; the savings and loans (U.S.) and Bank of Credit and Commerce International (BCCI) scandals in the 1980s; the collapse of the Barings Bank (U.K.), the Asian Financial Crisis, and the dot.com bubble in the 1990s, to name but a few. Over the years, incidents of ethical lapses by major businesses and prominent people in position of trust in organisations and society were widely reported. Corporate misdeeds or abuses such as fraud, greed, insider trading, falsified accounts, audit negligence, excessive executive compensation, bribery, price-fixing, interest-rate-fixing, dysfunctional board, discrimination, and environmental degradation are but some of the incidents and accusations capturing both media and public attention.

The rage about the loss of trust is widespread because both the financial loss was high and the flow-on emotional impact was severe. This is an obvious manifestation of the intertwining of the political and economic life of societies with the financial life of markets. When feeling betrayed, through the provocation of the media, society as a whole is quick to condemn and chastise those (particularly public figures) who are perceived to fall short in their behaviour and bring about the losses or disrepute. Perhaps implicitly, society has an acute sense of the right and the wrong of conduct – all in the nature of “justice.” The current issues would suggest that the economic model (capitalism), despite its many successes, is not working as it should (Bakan, 2004; Barry, 1998; Davis, 2009; Friedland, 2009; Fukuyama, 1995; Rowland, 2005). Many factors

have led to an erosion of trust. What caused the deep disappointment and disillusion was the feeling that the people and organisations/institutions (that is, the trustees) on which the well-being of society depend have failed to fulfil their obligations to protect and to serve (Kramer, 2012). These failures have led to the breakdown of public trust. Chapter 2 has already alluded to the ethical lapses of corporations that had led to the business ethics movement and prompted the calls to restore public trust in the business community through ethics and corporate governance reforms. To understand the rationale for ethical betterment and trust repair, it is necessary to examine the causes of the breakdown of trust, that is, why people and organisations (that is, the trustees) are not fulfilling the trust conferred on them. This requires an examination of the demands created by a new culture of capitalism since the latter part of the 20th century. Such a review helps to ascertain some of contemporary social and organisational problems that caused the decline of trust and ethics.

3.3.1 A new culture of capitalism

A new culture/era of capitalism has emerged in the latter part of the last century with a new economic order characterised by high-tech innovation, risk-taking, global horizons, new business models, sophisticated financial engineering, and declining regulation (Friedland, 2009; Paine, 2003; Rowland, 2005). This new era has seen the mushrooming of large-scaled vertically integrated joint-stock companies different from the compact, owner-operated businesses envisioned by Adam Smith (Davis, 2009). Driven by globalisation, privatisation, deregulation, and information technology, most developed nations have adopted this new economic order and moved into a post-industrial era with the growth of a large tertiary sector driven by a more aggressive commercial ethic (Fort, 2007; Friedland, 2009). The rising importance of high finance has seen the growth of “knowledge workers” in accounting, banking, and finance in globalised financial affairs (Davis, 2009). The nature of our society has changed; it is increasingly more complex with the rise in individualism, the remorseless intrusion of the market into every aspect of society, and the revolution in communications technologies as highlighted by Rowland (2005) (mentioned in Chapter 2, Section 2.4.2). Despite introducing a new pattern to the social order, this new era of capitalism is not without problems (see Section 2.3.1 in Chapter 2 with regard to the five moral problems Adam Smith associated with capitalism). For instance, the business community is perceived to be greedy, materialistic, and relentlessly competitive. There are recurrent principal-agent problems,

weak corporate governance, ethical scandals, geopolitical uncertainty, and on-going environmental degradation (Fort, 2007; Jackson & Nelson, 2004; O'Hara, 2004; Rowland, 2005). All these have led to or exacerbated the trust crisis. Public expectations of corporate behaviour are reflected in the demands for accountability (for example, corporate governance, truthful accounting, fair incentive systems, employee empowerment, stakeholder focus, adequate performance appraisal, and sound organisational culture) (Friedland, 2009) and a new outlook (for instance, transparent disclosure) (DiPiazza & Eccles, 2002; Tapscott & Ticoll, 2003). Dealing with all these new changes can be challenging as it is subject to human agency and institutional constraints.

The new demands of the modern economy have seen business activities and relationships becoming increasingly complex (Fukuyama, 1995; Olsen, 2004). The notion of ownership and control identified by Berle and Means (1932) has evolved with the new structure of ownership.²³ Division of labour, competition for resources, and the emphasis on productivity have led to the disappearance of many of the familiar lines that separated activities from business and the replacement by new ones with a new set of new conflicting interests. The core of the neo-classical economic model remains but the trend of an integrated global economy has transformed the marketplace. New powerhouses continue to emerge (Bakan, 2004; Bradley, Schipani, Sundaram, & Walsh, 1999). Businesses are being ascribed roles. Companies (particularly global companies) play important roles in macro-economic and public policies. In short, there are increasing expectations that businesses are able to meet some of the 21st-century social and environmental challenges. Amidst these new complications, the new era of capitalism has its fair share of controversy as it is tainted with widespread business failures, intense competitive pressures, and increased public scrutiny due to less tolerance of corporate excess and malfeasance (Bakan, 2004; Bloomfield & Murray, 2008; Hunt, 2003) – issues that have led to the decline in trust. Research conducted by Fraser (2010) reveals that trust can be broken in a variety of ways in a relationship, some of which can be intentional, some unintentional. He has identified eight most common causes of trust

²³ The theme of Berle & Means' book "The Modern Corporation and Private Property" (1932) is on the relationship between ownership and control. As the Western economy shifted from the industrial into the post-industrial era (in tandem with the trends of globalisation and information technological advances), the corporate form is no longer the tangible institution of the industrial days. A new type of corporate governance mechanisms has emerged to cater for the multi-layered companies (tangible and/or virtual) owned by increasingly dispersed anonymous (and powerless) shareholders. In the reign of these companies is a relatively small class of professional managers who are very well-rewarded for services rendered.

breakdowns,²⁴ six of which can be grouped under the three trustworthiness characteristics provided by Mayer et al. (1995): *ability violations* (Unwillingness to acknowledge and Performance issues); *benevolence violations* (Disrespectful and Ineffective leadership), and *integrity violations* (Unmet expectations and Incongruence). This is evidence that has led to declining spirals of trust, which in a way is related to pervasive self-interest among the market participants, particularly those in the leadership positions.

3.3.2 The pursuit of self-interest in business

A fundamental problem of the capitalist system is the assumption of self-interest, which Adam Smith considered essential in capitalistic pursuits but critics regarded as opportunistic behaviour (see Chapter 2, Section 2.3.2). Critics also considered globalised capitalism as an economic order benefitting the selfish interests of a few, that is, the privileged élites of the developed world (Parker & Pearson, 2005). Most researchers are convinced that corporate self-interest is the root cause of the decline in public trust and investor confidence in big businesses and in our economic system. The economic structure of capitalism has indeed led to some very damaging social consequences. At the corporate level, it discourages the local production and encourages the growth of gigantic corporations that exploit local labour for profits elsewhere (for example, Nike). It maximises inequalities and encourages an extreme competitive individualism that results in alienated labour for many, and is damaging to any meaningful senses of community and cooperation (Bakan, 2004; Barry, 1998; Commers et al., 2008). The aggressive “market” techniques employed by the hyper-competitive markets and corporate gigantisms are indicative of an environment that benefits the wealthy, delegitimises alternative arrangements, and encourages unrestrained competition (Davis, 2009; Nielsen, 2010). Such developments show that the market is not in any sense a level-playing field and that corporate dominance is one of the causes of this inequality.

At the interpersonal level, the “self-interest seeking with guile” (Williamson, 1993) by key market players has been regarded as one of the causes of the decline of trust. This highlights the principal-agent problem and the fiduciary responsibilities of management.

²⁴ The most commonly mentioned causes of breakdowns in trust are: (1) Communication issues (communication breakdowns); (2) Unmet expectations (broken promises); (3) Disrespectful behaviours (discounting others’ contributions; blaming others for problems); (4) Unwillingness to acknowledge (taking no responsibility for mistakes or issues); (5) Incongruence (actions not matching words); (6) Ineffective leadership (poor decisions, favouritism or unwillingness to address major issues); (7) Performance issues (issues of general competence); and (8) Structural issues (misalignment of job duties and authority).

Greedy CEOs, short-sighted risk managers, complicit rating agencies, reckless traders, incompetent accountants, and devious short-sellers are but some of the descriptions of these accomplices/conspirators in corporate misconduct causing a breach of trust. It is not surprising that these “captains of finance” and “public stewards of the financial system” were blamed since the loss was incurred while they were custodians for the assets of individuals and/or organisations (Bakan, 2004; Khurana & Nohria, 2008; Olsen, 2004).

The root of the breach was often attributed to their individual self-interest at the expense of the corporate good. First, the free flow of capital across industries and countries requires the system of financial intermediaries to take a dominant role (Berd, 2010) in handling their clients’ affairs. There were undoubtedly executives who possessed a sense of integrity but were incapable of controlling the external environment or any innate deficiencies. There were also executives who had no hesitation in placing their own interests ahead of shareholder interests since they had both the opportunities and the means to rationalise their actions. For them, the capital providers (owners) and their powerless subordinates were mere abstractions to be manipulated. Second, the capitalist agency relationship attempted to align the interests of agents with that of the principals through contractual arrangements using monitoring and incentive schemes. However, some profit-seeking schemes or corporate raiding (such as cutbacks, mergers, or “golden parachutes”) seemingly with a utilitarian calculation motive (Beadle & Moore, 2006) had often ruined this functionality of management control. Far from motivating agents, the scheme might signify a withdrawal of autonomy and trust, reflecting an imbalance of power and some ingenious patterns of self-interest within contractual relationships (Armstrong, 1991). Third, with the investing public betting heavily on corporate success, managers and analysts, were under intense pressure to meet market expectations. The lack of honesty and the obsession with earnings (for example, quarterly earnings in the U.S.) had seen many capable managers/executives losing a sense of common good/directions by misusing their power. Consequently, self-interested economic behaviour (the invisible-hand metaphor) propelled by the cult of corrupted shareholder value had led to a breakdown in both personal values and organisational/corporate values. In the capital markets, it could be seen that both the least sophisticated and the most sophisticated market participants “have fallen ill with the same symptoms” – the unchecked desire of immediate satisfaction overshadowing prudent assessment of future

risks and costs (Berd, 2010, p. xxviii). As such, the short-term focus of the market-based capitalist form of society had undermined the social conditions of capitalism's effectiveness.

3.3.3 The role of accounting and finance

Accounting and finance were implicated in the process of capitalist exploitation as many accountants, auditors, and finance professionals had played a part in the financial crises and scandals (Arjoon, 2005; Arnold, 2009; Ball, 2009; Berd, 2010; Davis, 2009). Consequently, questions have been raised about the integrity of the financial community.

Major corporate scandals and the crises of the financial system had all been linked directly or indirectly to false, misleading, or untruthful accounting (Bayou, Reinstein, & Williams, 2011). Such distortions, involving varying degrees of reporting accounting untruths, were overt violations of the ultimate objective of financial reporting. Accounting professionals had been accused of weakened will-power to oppose corporate malfeasance as they are using the accounting function to assist their clients to deceive the public. For instance, fraudulent reporting in the form of off-balance sheet financing and other accounting gimmicks had been carried out by self-interested untrustworthy individuals who had lost track of whom they should ultimately be responsible to (Ball, 2009).

In recent years, the growth of the finance sector, in particular in the U.S., has created an abundance of credit and encouraged excessive risk-taking through complex financial instruments (e.g., derivatives, credit default swaps), corporate structures, and ineffective regulatory mechanisms (Berd, 2010; Sikka, 2009). Banks, hedge funds and insurance companies had been key players in the dealings of finance; so had accountants and auditors since capital markets were closely integrated into the financial system (Berd, 2010). Many of the issues in the recent financial crisis were the result of investment banks' activities in originating or securitising loans and selling these collateralised debt obligations (CDOs) to others, as well as buying and selling credit default swaps (CDS). The U.S. mortgage crisis was caused by banks unhindered by significant regulations to make risky lending decisions and equally risky investments (e.g., Lehman Brothers). What we have witnessed recently was a highly financialised economy that was fuelled by irresponsible lending practices, financial engineering, bogus bond ratings, opaque

financial instruments, and the growth of a systematically dangerous banking system and unprofessional auditors (Arnold, 2009; Berd, 2010; Davis, 2009; Nielsen, 2010; Sikka, 2009).

With financial reporting requirements governing asset valuation and off-balance sheet entities, major accounting firms in the U.S. and Europe were also directly involved in the process of securitisation and structured finance in their capacity as advisors to investment banking clients, thus contributing to systemic financial instability leading to the recent economic crisis (Arnold, 2009; Berd, 2010; Sikka, 2009). In a competitive business environment, managers were under pressure to deliver strong earnings growth and share market performance at all times (see previous section). Their desire to maximise short-term returns had often blinded their ability to read warning signs. Accounting irregularities became more obvious in periods of slow growth or crisis than in high growth periods (Ball, 2009). The recurring financial scandals over the years have also highlighted the less-than perfect regulatory system and the self-interest and myopic visions of many key players (Lorsch et al., 2005). For instance, the U.S. accounting system that made accountants financially dependent on their audit clients had created the conflicting interests leading auditors to make compromised judgments. The demise of Arthur Andersen is a poignant reminder of how the capital market's reactions to financial scandals by punishing those who did not act ethically (McMillan, 2004). The "silence of the auditors" with respect to the financial distress of major world banks has raised questions about auditor independence, the credibility of the audited financial statements, and most importantly, the high trust (that is, honesty, integrity, and reputation) commanded by these prominent audit firms (Sikka, 2009).

There are lessons to be learned from both the recent scandals and the new development in the highly complicated globalised world (Arnold, 2009; Ball, 2009; Bayou et al., 2011; Berd, 2010; Paine, 2003; McMillan, 2004; Sikka, 2009; Tapscott & Ticoll, 2003). The financial crises and scandals have led to a decline in the worldwide reputation of accountants, auditors, finance professionals, audit committees, accounting reporting rules, audit standards, securities laws, and regulatory oversight. They have also demonstrated how the international financial network relies on the assumptions of trust. The next section considers the implications of trust relations for trustees and trustors.

3.3.4 The impact on trust relations

The dark side of the new culture of capitalism, the self-interest of agents, and the untoward actions of accountants and finance professionals have all contributed to the breakdown of trust relations in contemporary business. Capitalism is a system that functions on trust (Adler, 2001) and financial markets hinge on trust (Ball, 2009). It can take many years to build a culture where there is confidence in the free operation of the market, yet that confidence can quickly be eroded by unchecked greed or a cavalier attitude to commitments (as in the case of highly-publicised corporate scandals and bank failures around the world). In the past few decades, the trust and confidence essential to free market capitalism have been severely tested resulting in an erosion of the confidence the trustor (that is, the investing and general public) placed in the so-called dependable custodians (the trustees) such as managers, accountants, and finance personnel. This section examines briefly how recent events have negatively affected trust relations in business.

3.3.4.1 The trustee – the culprit?

The trustee is often the party that carries the brunt of the blame in a failed trusting relationship. In business relationships, trustees, whether they are individuals (such as managers or accountants) or organisations (such as accounting firms, corporations, or any financial institutions), are the parties entrusted with the management of the (financial) resources. With their technical competence, benevolent attitude, and sense of integrity, they are expected to fulfil their fiduciary responsibilities by acting competently, objectively, and non-maliciously for the benefits of trustors. However, there is always the risk that this trust may be betrayed, or at least let down, and not just disappointed (Baier, 1986). This is what happened recently in the highly financialised global economy.

Corporations (the trustees) all over the world in their competition for capital are under pressure to deliver not simply a return, but an outstanding return (Paine, 2003). Attempts to meet the demands and expectations of investors who freely roam the globe in search of the highest possible earnings have put severe strains on a company's commitments. Companies tend to use stock price-based incentive schemes to encourage managerial performance as a mechanism for meeting corporate targets (Olsen, 2004). This focus has seen investors becoming the dominant force, and shareholder value being enshrined in companies, boardrooms, analyst reports, and even the business press. Analysts also

become self-important and stock price becomes the measure of performance and self-worth. In many cases, integrity and responsibility have been overshadowed by shareholder value and the cult of the super-highly paid CEOs. In boom times when growth is strong and vigorous, the investors (trustors) are content with their expectations (high returns) fulfilled. In bad times, such as the recent crisis, when trustors suffer heavy losses, public outrage is rife with irresponsible trustees being accused of as the root cause of the breakdown of trust.

The performance of trustees is often being judged on whether they are able to bring in good returns. Managers hold the investment of investors in trust. The capital put at their disposal is not theirs to do with as they please. It is the property of their investors (that is, trustors) who invest with the expectation that the investment will grow in value. By virtue of their function, managers are trustees who have a fiduciary obligation to their shareholders to manage profitably. People who invest in corporations have a right to expect managers to fulfil their obligations, a right that has both moral and legal stature. It is therefore generally expected that trustees are to abide by their fiduciary and moral obligations. However, in the last few decades, there have been contradictory attitudes and behaviours toward values like loyalty, trust, or truthfulness (Rosanas & Velilla, 2003). Because of power imbalance, information asymmetry, and the forces of self-interest, trustees' exercise of the principles of reciprocity and cooperation have been contingent on human nature (their own motives) and institutional constraints (environmental factors).

The series of financial scandals creating havoc not only locally but also globally triggered the search for causes of these scandals. Because of their unique positions and responsibilities, senior managers acting as trustees were often found to have abused their power by engaging in reckless behaviour – bypassing checks and balances and employing aggressive “earnings management” techniques to attain short-term gains to appease investors/trustors and enrich themselves. Incentives such as bonus schemes, which are used to encourage performance while at the same time engender trust, are perceived to be excessive and wrong. Executives, high-flying accountants and brokers, big businesses, finance institutions like banks, and well-reputed accounting firms, which once were held in high regard for their expertise and integrity, were found to be shrouded in a cloud of deception (Bakan, 2004; Bayou et al., 2011) and violated their professional

values and responsibilities (e.g., Enron, AIG, Goldman Sachs, and “the Detroit 3”). These once highly-relied-on trustees were perceived as crooked corporate officers who had looted pension funds, defrauded shareholders, and mistreated their hardworking employees. Those trustors, who had exhibited high levels of trust in the trustees, felt exploited, disappointed, rebuffed, let down, or betrayed (see Baier, 1986) because their trustees had violated their trust by breaching the fundamental principle of running a good decent business essential to well-functioning markets due to their complacency, arrogance, greed, and lack of oversight (Hunt, 2003; Jackson & Nelson, 2004).

3.3.4.2 The trustor – the victim?

In a business relationship, the trustor is the trusting party depending on the positive goodwill of the trustee. In this instance, the trustor can be an investor, an employee, or anyone who perform the act of trusting. The following discussion focuses on the investor. Investors calculate risk in generalised and particularised (situational or strategic) trust conditions by taking into account both financial and non-financial factors (Ryan & Buchholtz, 2001). Accepting that share ownership involves both financial and ethical risk, these trustors place some level of implicit trust in those managing their funds and in the market. Trusting the manager/trustee is a demonstration of their trust in human nature, that is, the benevolence or goodwill of the trustee despite the risk, that is, the self-interested motive of the trustee. Trusting the market requires faith in the efficiency of the market in displaying a form of institutional trust in the corrective action of the “invisible hand.” For example, investors’ implicit trust in accountants, auditors, and the financial community in general is a form of strategic trust based on the ability, benevolence and integrity of those they bestow their trust. However, as discussed previously, investor propensity to trust can increase or decrease due to situational factors, that is, by prior experiences of investment successes or failures (Herman, 1992; Ryan & Buchholtz, 2001).

Trust is built on expectations that are, in part, emotional. When these expectations are broken, the trustor often experiences strong emotions, which is a reflection of his/her perception about the violation of trust and the need to attend to the relationship (Barber, 1983; Hall, 2003; Jones & George 1998). Trust is therefore inextricably involved in trustors’ perception of risk and violation (Ryan & Buchholtz, 2001). The revelations of corporate malfeasances by trustees in responsible positions can not only undermine

public trust but also provoke a deep sense of betrayal among trustors who have invested heavily and expect a good return for their investment. They have often made significant emotional investments in the relationships. That is the reason why the betrayal of trust has the power to rouse a sense of emotional outrage in them, “the betrayed” (Baier, 1986). According to Lewis and Weigert (1985), such a betrayal of trust strikes a deadly blow at the foundation of the relationship itself, not merely at the specific content of the betrayal. In a business setting, betrayal is acutely felt when recipients of public trust turn that trust to their personal, pecuniary advantage and inflict serious damage to the heart of the trustor. It is this abuse of trust that has provoked the wrath of the trustor and the general public. As such, the moral and emotional tenor of betrayal arises from the assumptions made, and sometimes disproved, about trustees’ motivations and intentions, not solely about their skills and performance (Hall, 2005).

Indeed, many of the world’s big businesses have used trust as a basis for economic growth and efficiency (Fukuyama, 1995; Husted, 1998; Paine, 2003), for instance, building up a brand and reputation. Paradoxically, an increase in trust creates new incentives for opportunism (as a trusting community is a thief’s paradise) (Paine, 2003), particularly when trustees make use of these opportunities to pursue their private ambitions by hiding behind claims that they are acting in the public trust. This dark side of trust has often portrayed trustors as “victims of greed” (Byron, 2006, p. 155). However, it begs the question whether they are indeed victims of the trust relationship! Perception of hurt and betrayal related to trust is not uncommon; however, a proper examination of the decline of trust requires an assessment of both parties: whether the trustee performs his/her responsibilities appropriately and whether the trustor has some responsibility for ensuring that the expectations he/she projects on the trustee are appropriately formed (Koehn, 1996). When a disaster (financial or otherwise) strikes, trustees often bear the blame; however, it could be the trustor’s expectation, not the trustee’s performance that needs further scrutiny. Those who accept trust inevitably put themselves at some risk because they do not know exactly to which expectations they are consenting to conform (Koehn, 1996). Wicks, Berman, and Jones (1999, p. 101) observed that people could trust foolishly, that excessive trusting could be culpable, and that “saintly trust” (that is, trust without suspicion) could be dangerous and exacerbate abusive behaviour (e.g., trusting too much) could enable opportunists to steal from the trustor with relative ease. On the other hand, people might underinvest in trust and

become too suspicious of others.

Trustors such as investors are generally interested in the context within which corporate profits are made. However, once they suffer some losses, they tend to feel betrayed, leading to a reduction in trust or even distrust. This would imply a reduction in reliability due to broken promises and inconsistent messages – the promise of a good return. There is growing distrust of the capitalist system not only because it is unable to resolve many of the social and environmental problems but because of the recurring incidents of financial failings and their socio-economic impact on society.

The question of whether trustees are culprits and trustors are victims is debateable. It is important to accept that humans have a propensity to trust and very often, they “wisely or stupidly, virtuously or viciously, show trust in a great variety of forms, and manifest a great variety of versions of trustworthiness, both with intimates and with strangers” (Baier, 1986, p. 234). The issue is when those trusted parties turn that trust to their personal, pecuniary advantage, they inflict serious damage to the cause of common good. As Lewis and Weigert (1985, p. 971) put it: “It is this abuse of trust, much more than the simple illegality of individual actions, that provokes our emotional wrath.” Markets are devastated because they rely on trust. Corporate abuses involving (managerial) unethical behaviour have violated that trust and, consequently, eroded the moral infrastructure of society. With the scandals triggering the sense of moral outrage, it is pertinent to tackle the issue of rebuilding trust. Because most of the events leading to the breakup of trust are related to ethical conduct, the next section examines trust and ethics in business.

3.4 TRUST AND ETHICS IN BUSINESS

According to social scientists such as Fukuyama (1995), Misztal (1996), and Sztompka (1999), a viable society is a moral community. Humans rarely exist in isolation. Human collectivistic actions therefore do not occur separately and independently from each other; they interrelate in complex fields of action creating social bonds and “interpersonal relationships” in the world of “moral communities” (Uslaner, 2002; Sztompka, 1999). Morality refers to the ways in which people relate to others by identifying the right, proper, obligatory relationships, invoking values rather than interests as the justification for prescribed conduct. Moral community is based on ethical habits and reciprocal moral obligations internalised by the community’s members (Fukuyama, 1995), manifested in a

sense of belonging, trust and responsibility, and duties towards others who share the same values, interests, and goals (Misztal, 1996). Sztompka (1999, p. 5) identified three moral obligations as the basic vectors of the members of the community: trust, loyalty, and solidarity. *Trust* relates to the expectancy of others' virtuous conduct towards oneself. *Loyalty* denotes the obligation to refrain from breaching the trust that others have bestowed on oneself and to fulfil duties taken upon oneself by accepting somebody's trust. The spirit of *solidarity* focuses on caring for other people's interests and readiness to take action on behalf of others, even if it conflicts with one's own interests. Chapter 2 of this thesis has highlighted that ethical and moral concepts are a means to constrain the self-interest in human nature laying the foundation of a "good life," the goal of social solidarity.

Business relationships, whether it is individual-based or organisation-based, have traditionally built on a foundation of integrity, trust, and loyalty with the ultimate goal of social stability. Economic growth depends on trust (Fukuyama, 1995; Tapscott & Ticoll, 2003) with the market system working best when those engaged in economic exchange or business transactions show the capability of mutual trust, that is, have the disposition to place confidence in the behaviour of each other in fulfilling their obligations (contractual or otherwise). Ethics is vital for a well-running economy (Arjoon, 2005; Arvidsson, 2009; Fukuyama, 1995; Noreen, 1988; Paine, 2003). Implicitly and explicitly, sound ethics can help to guide individual and organisational behaviour particularly in times of dilemmas and/or "weakness of will." The critical factor underlying shared ethical norms is trust, the foundation upon which societies are founded (Fukuyama, 1995; Noreen, 1988). As in any human relationships, business relationships can give rise to very specific ethical issues brought about by the need for mutual trust. Ethics helps to create the foundational trust between two parties in a transaction. An ethical system can facilitate trust among its adherents by creating the necessary foundation for cooperative behaviour. The establishment, growth, and loss of trust are therefore an ethical issue, well above any economic and sociological considerations. The ethical content of trust lies in the attitudes, values, and virtues of the parties concerned as it reflects their capacity for moral and actual self-commitment, in accordance with the individual's moral conditions (character) and acquired habits (virtues) (Argandoña, 1999).

3.4.1 The morality of business

The morality of business, however, is comprised of a plurality of potentially conflicting principles, an unstable amalgam of possibly competing practices, and maxims (Barry, 1998). The corporate form, despite its legal contractual arrangements, is also a moral system/structure that depends upon trust and honesty to support its pursuit of both economic and social goals. It is partly moral because in the complete absence of trust, short-term gratification may result in long-term disadvantage for all participants in the system. The egoistic action, that is, the self-interest genre in human nature of economic actors/market participants, can only be restrained by certain moral predispositions in the participants – the capacities for trust, reciprocity, and cooperation. The more that agents can rely on each other to keep deals and honour promises without the paraphernalia of formal law, the more that transaction costs are reduced and business operations are smooth and predictable (Barry, 1998; Neu, 1991a, 1991b).

In economic systems, individuals and firms can achieve cooperation either objectively through contractual arrangements or subjectively through accepting informally the other party's willingness to commit. Either of this requires trust (Argandoña, 1999). Markets achieve the goal of a socially desirable outcome by coordinating such economic activities through the generalised process of exchange (Eatwell, 1998). The capitalist market system of supply-and-demand is supposedly the independent and disinterested arbiter of economic worth. While it promotes the pursuit of self-interest (the component of economic rationality), it also disciplines/restrains excessive self-interested behaviour through, for example, regulation or self-regulation, ensuring that it is not manifest in the exploitation of monopoly advantage. Human beings, in pursuing their own self-interest, have to secure the regard of others by demonstrating a proper sympathy (an "enlightened self-interest") for the concerns of others. This is what behaving ethically in the marketplace is about (Husted, 1998). As such, ordinary egoistic action is restrained by principles of solidarity and voluntary self-enforcing obligations created primarily by contractual arrangements between individuals or firms in basically anonymous markets are underwritten by moral rules and conventions which are not "assumed" by agents. These are the shared common rules underlying trust for social interdependence (Caldwell & Clapham, 2003; Fukuyama, 1995; Rosanas & Velilla, 2003). To ensure long-term success, corporations have to behave within the law at all times while at the same time strive to transcend the narrowest of legal perspectives to build trust, confidence, and

stability in business transactions. The ethical behaviour showing a cooperative effort is the prerequisite for trust.

The contemporary environment with its emphasis on the global “cosmopolitan” responsibilities through global institutions has accentuated the importance of trust and trust relationships (Brenkert, 1998b; Commers et al., 2008; Cragg, 2005). First, the moral perplexity of the contemporary era, with its socio-economic interdependence, has reached an unprecedented level and raised new and pressing moral and ethical issues created by the on-going new developments (Commers et al., 2008). Second, today’s economy depends on knowledge, human intelligence, agility, and relationships inside and outside the firm. Information becomes the fuel in such an economy and trust is the lubricant to ensure everything operates smoothly and efficiently (Tapscott & Ticoll, 2003). Third, the well-being of modern corporations also depends on sustained, trusting relationships with a diverse range of stakeholders (Argandoña, 1999; Aguilera, Rupp, Williams, & Ganapathi, 2007; Greenwood & Van Buren, 2010). Pecuniary benefit is not the only motivation in stakeholder welfare. Motivation also depends on intrinsic value and fulfilment, continuity of relationships, dignity and respect, meeting commitments, mutual trust, and self-worth. Mutual trust, in particular, is underpinned by ethical values. If trust is lost due to ethical misconduct, then it may lead society to revoke corporations’ “licence to operate” (Commers et al., 2008; Donaldson & Dunfee, 1999).

Trust therefore plays an important role within and between business organisations, both nationally and internationally. The presence of trust has many benefits, for example, reducing transaction costs (Williamson, 1993), permitting alliances of various kinds (Argandoña, 1999), and making possible the sharing of sensitive information (Adler, 2001). It also serves as a basis for expanded moral relations in business (Brenkert, 1998a; Caldwell & Clapham, 2003; Greenwood & Van Buren, 2010). What has attracted contemporary business ethicists to investigate the issue of trust has been their concern with moral relationships in an increasingly complex society, and their eagerness in applying ethical/moral principles to explain and hopefully resolve the moral issues in business (Brenkert, 1998a).

3.4.2 The link between ethics and trust

Researchers such as Hosmer (1995), Husted (1998), and Greenwood and Van Buren

(2010) have viewed ethics and trust as two intertwining concepts. Hosmer (1995) believed that trust is the connecting link between organisational theory and philosophical ethics. He found that the trust definitions in these two disciplines seemed “to be based, at least in part, upon an underlying assumption of a moral duty with a strong ethical component owed by the trusted person to the trusting individuals” (Hosmer, 1995, p. 381). Although moral philosophers in the West have not written extensively about trust (see Baier, 1986 and Section 3.1 in this chapter), many of them have focused on finding the “first principle,” the ideal rule upon which all other rules could be based to lead to a “good” society. A “good” society is one in which members willingly cooperate for the ultimate benefit of all (Axelrod, 1990). The notions of “willing cooperation” and “ultimate benefit” would suggest an obvious association between the definition of trust in organisational theory and the concept of the “good” society in moral philosophy. According to Hosmer (1995, p. 399), ethically justifiable behaviour forms the basis for morally correct decisions and actions in which the interests of the society take the degree of precedence that is “right,” “just,” and “fair” over the interests of the individual.” In other words, including the notions of right, just, and fair into the discussion of efficient, effective, and practical matters could help to promote behaviour that is “good” for society and, in turn, lead to greater cooperation among the participants in a dyad, the stakeholders of a firm, and the citizens of a society.

Greenwood and Van Buren (2010) agreed with Hosmer (1995) that trust was a moral exchange in the ethical obligations of organisations with regard to stakeholder relationships. With a focus on moral character, moral obligation, moral duty, goodwill and self-restraint, they related to the reliance of the trusting party and the duty incumbent of the trusted party. They also looked at moral responsibility in the aspect of vulnerability, that is, risk or potential loss because of bestowing trust in the relationship. They argued that the existence of trust implied an ethical obligation not to abuse that trust for one’s own benefit. It also implied a moral duty to protect others in the absence of social controls that would use coercion to restrain behaviour. As discussed in Section 3.2 of this chapter, trust is based on a subjective belief in the benevolent intention of others in the trust relationship, that is, by rational prediction and emotional bonds in the “goodwill” or the moral characters of the parties concerned. Trust therefore entails an expectation of morally correct performance by the trustee. In many incidences, the trustor puts his/her trust in the trustee because he/she believes the trustee will act not only

benevolently in his/her best interest but also with a sense of integrity for the greater good (Hosmer, 1995).

For Wicks et al. (1999), the foundation of an optimal trust had three key elements – the rational, the emotional, and the moral. Greenwood and Van Buren (2010) agreed but argued that trust necessarily involved a moral component over and above any emotional or rational component. The moral component was particularly vital in power differential situations when those in power were perceived to be engaging in exploitative activities and were accused of trust betrayal. In such situations, the moral component could play a key role in ensuring organisational trustworthiness. This moral component was important because it was an emotional investment and self-restraint embedded in the emotional bonds created between people in trust relationships, enabling them to take a “leap of faith” that trust would be honoured (Lewis & Weigert, 1985; Wicks et al., 1999). In particular, this reflects the belief in the moral character or “goodwill” of the trustee in the trusting relationship. Without a moral element in this relationship, any action is merely the willingness of one person to increase his/her vulnerability to the actions of another person whose behaviour cannot be controlled by him/her (Hosmer, 1995) based on a prediction or calculation of that behaviour (Lewicki & Bunker, 1996). Without this moral aspect of trust, the parties concerned are faced with opportunism or higher agency or transaction costs to prevent opportunism (see also Williamson, 1993). It is due to self-restraint on behalf of the moral actor that trust might or might not (depending on the actions of the parties involved) address the problem of opportunism. Hence, trust is morally desirable for two reasons. First, it is a characteristic of human flourishing within a community, which has the potential to promote social solidarity and stability. Second, the emotional states associated with trust (particularly mutual trust) suggest its goodness in providing the critical basis for self-esteem and a sense of security (Wicks et al., 1999).

Three key variables about trust are visible in the definition provided by Barber (1983) – “expectation of technically competent role performance and expectations of fiduciary obligation and responsibility, that is, the expectation that some others in the social relationships have moral obligations and responsibility to demonstrate a special concern for others’ interests above their own” (p. 14). These three key variables about trust are: technically competent performance, fiduciary responsibility, and moral obligations, which bear some resemblance to the three trustee attributes proposed by Mayer et al.

(1995) - ability, benevolence, and integrity. Two of these characteristics, benevolence and integrity, are said to contain some ethical connotations since they are derived from the moral aspects of Barber's definition - "fiduciary obligation and responsibility" and "moral obligations and responsibility" respectively. Two types of trustee motivation derive from fiduciary obligation. The first one is benevolence, the extent to which a trustee is believed to want to do good to the trustor aside from an egocentric profit motive (Mayer et al., 1995, p. 718) and the trustee's "special concern for other's interests above their own" (Barber, 1983, p. 14). It connotes a positive orientation or attachment the trustee has (love or sympathy) toward the trustor. The second is integrity, which expresses the trustor's perception that the trustee adheres to a set of principles deemed acceptable by the trustor (Mayer et al., 1995, p. 719) with its emphasis on moral obligations (Barber, 1983, p. 14). It is wider than the mere adherence to a set of values (personal integrity); it is moral integrity comprising a sense of justice.

3.4.3 The ethical limits of trust

Despite the positive prospects of trust as an ethical basis for economic organisations and social solidarity (Fukuyama, 1995; Putnam, 1993), several scholars such as Baier (1986), Husted (1998), and Koehn (1996) have cautioned about the limits of trust. In particular, Baier (1986) observed that there were moral as well as immoral trust relationships as exploitation and conspiracy thrived as much as justice and fellowship. Husted (1998) concurred that trust relations might not always have beneficial consequences. Therefore, one should not assume that trust was "good" from an ethical point of view. According to Husted, the concept of trust provided no objective basis such as Kant's categorical imperative to determine the goodness of its end. In other words, there is no element inherent in the trust relationship to assure that the trustee is genuinely acting on behalf of the trustor's interests. Furthermore, there are even fewer constraints to ensure that, while the parties in the dyadic relationship act in a trusting manner, it also works for the good of society as a whole. Undoubtedly, the trustee has an implicit moral obligation to inspire trust. However, since the trustee seeks the good of the trustor, the trust relationship is limited by the fact that the trustee acting on behalf of the trustor's interests determines the "good" of the trustor. Often, it is necessary to judge trust relationships from a moral point of view. When one depends on another's goodwill, one is necessarily vulnerable to the limits of that goodwill. As such, there are moral risks of trust. The moral test of trust relationships concerns both the trustee and the trustor. For the trustee, it is the keeping of

promises in the fulfilment of trustor expectations. However, keeping promises sometimes does not involve real trust in the other party's goodwill and the proper use of discretionary powers. For the trustor, trusting requires good judgment to know whom to trust and how much discretion to give. The trustor has some responsibility for ensuring that the expectations he/she projects onto the trustee are appropriately formed. In cases of trustee failure to meet trust due to fraud, incompetence, or negligence, it would seem essential for the trustor to show some tact and willingness to forgive and for the trustee to show some willingness both to be forgiven and to forgive unfair criticism. These, in themselves, are testimonies of some complex and sophisticated moral achievements in the capacity of moral deliberation showing the significance of human cognition, reflection, and autonomous action (Baier, 1986; Husted, 1998; Koehn, 1996).

This section has briefly looked at the link of trust and ethics in business. It has highlighted some features such as the moral obligation in trusting relationships and the significance of the moral character of the trusting parties, in particular, the trustee. In treating the trusting parties as members of a moral community, it has adopted the Kantian perspective of ethics focusing on duty in the protection of rights of individuals and community rather than virtue. In addition, it views the twin pillars of trust and ethics as a positive condition for good business in a well-functioning economy. However, in a world dominated by corporations where trust is considered a source of competitive advantage in business relationships and a necessary prerequisite for fluid market exchange (Arrow, 1974), the business community is embroiled in a complex intertwining and conflicting rationalities (Herman, 1992). There have been frequent complaints about the short supply of trust with the increasing phenomena of corporations being revered and trusted at one time were being regarded as vile in the next. A unifying theme emerges out of these - what has gone wrong and what needs to be amended. The next section examines the need to repair and maintain the moral fibre of trust in the capitalist system.

3.5 RETHINKING THE NEED FOR TRUST

Previous discussion has identified many issues leading to the trust crisis in the business world. A new culture of capitalism, the inherent self-interest of economic actors, and the pivotal roles played by accounting and finance personnel in the global market are some of the more prominent issues highlighting the deficiencies of the extant capitalist system. The neo-classical economic model adopted by contemporary businesses has often been

criticised as the root cause of corporations' preoccupation with economic growth and insatiable pursuit of profit. Such obsession has led to the recurring financial failures and scandals, which, in turn, triggered a withering force of free market ideology and a decline of trust in the market. It is argued that unless businesses take the initiative to reform and extract themselves from the exclusive focus on profitability, the culture of modern capitalism will not evolve to a state of sustained equilibrium (Arvidsson, 2009; Fort, 2007; Friedland, 2009). As such, crisis is opportunity as it requires new answers and new ways to assure investors and other stakeholders to join in the effort to build public trust in the markets, on which the progress of society in all parts of the world depends as it needs cultures of accountability run by people of integrity (DiPiazza & Eccles, 2002). The following section examines the necessity to reset the "moral compass" in modern economies and justify the strategies to maintain trust to attain equilibrium.

The waves of scandal and the global economic crises have seen the worsening of a trust crisis with damaging results such as a decline in the reputation of banks, accounting and finance professions, security analysts, regulators, and financial markets worldwide. Many corporate executives have been convicted under the SOX and other damages awarded against companies, managers, auditors, and complicit banks.²⁵ Although the epicentre of the crisis was in the U.S., the problem and the challenge are global because the global capital markets are so closely integrated that aftershocks have been felt around the world with a declining spiral effect on the public trust in business (Ball, 2009; Berd, 2010; Bradley et al., 1999; Davis, 2009). Over the past five decades, there has been substantial increase in the regulation of financial reporting and public finance.²⁶ Government agencies, academic researchers, and even the press have made investigations to make sense of the scandals and crises: the causes, the consequences, and most importantly, the effectiveness of regulation in mitigating such occurrences.

It is fair to say that no time in history like the present time when trust problems have created so many problems for the business community. The complexity of the capitalist economy has increased enormously over the years, with the emergence of strategic alliances, networked or virtual organisations, the connectedness imposed by information

²⁵ Many of these "captains of finance" and "public stewards of the financial system" had contributed to the financial meltdown by ignoring warnings and failing to question, understand, and manage evolving risk in the economy (Kramer, 2012). Hence, they failed their obligation to protect and to serve.

²⁶ This somewhat coincided with the business ethics movement discussed in Chapter 2.

technology, and increased visibility (global awareness of corporate performance) (Waddock, 2006). This increasing interdependence is accompanied by a complexity that has seen trust being deteriorated and ethics becoming questionable (Bell et al., 2002). As mentioned earlier, humans are fundamentally social creatures. Social interaction is inevitable whether in prehistorical societies that did not have elaborate social structures or in modern well-ordered societies. Trust has been a basic building block of social life for centuries. In modern business, trust is a vital element in reducing “social complexity” (Luhmann, 1979). Trust researchers such as Gambetta (1988), Putnam (1993), and Fukuyama (1995) have viewed trust as some sort of “social capital” possessing qualities of shared norms, collaboration, mutual goals and expectations, all of which are essential to promoting social harmony. Fukuyama (1995) further argued that high trust in societies could serve as a yardstick of (that is, a measurable effect on) economic performance. With the new economic world order taking roots in the past few decades, many new developments have emerged, most conspicuous of which are global horizons, risk-taking, new business models, sophisticated financial engineering, and high-tech innovation. Such structural changes in capitalism, combined with the increasingly complex agency relationships, have led to the trust crisis and posed many ethical challenges for present-day society. To regain some equilibrium for the common good, it is necessary to implement constructive mechanisms to reduce this social complexity (Luhmann, 1979). The following considers the important role of trust and ethics in contemporary business in three areas: organisational change, complexity of market dynamism, and new perspectives of agency relationships before identifying the mechanisms to engender trust.

3.5.1. Organisational change

Multinational corporations (MNCs) have mushroomed since the latter part of the 20th century. At the heart of these changes are the trend of globalisation and deregulation and the revolution of information and communications technologies. Globalisation and deregulation have allowed firms to expand their activities across countries through mergers, acquisitions, franchises, joint ventures, or strategic alliances (Argandoña, 1999; Brenkert, 1998a). Information technology permits the development of new forms of organisations in the like of virtual corporations (Jones & Bowie, 1998; Koehn, 2003). These new developments have many desirable qualities such as the speed and efficiency in transacting business, and the ability to bring people of vastly different backgrounds, beliefs and assumptions together on a much more frequent and extensive basis. Such

diversity and plurality can be problematic as the growth of technology and socio-economic development can cause severe social strains. Participation in a highly developed, technological society demands a relatively high level of trust in the system to neutralise the negative consequences of the “multiplication of dependency relationships” (Bluhm, 1987, p. 334). All participants (economic actors) need to make some psychological, sociological, cultural, and ethical adjustments to cultivate the development of long-term mutually trusting and cooperative relationships on which economic success depends. First, the employer-employee relationship will be tested when there are demands for higher productivity, leaner production units, and displacement of jobs, which often lead to distrust in the relationship²⁷ (Soule, 1998). Second, although the relatively new forms of relationships are formally built upon contracts to allow for cooperation and competition (Argandoña, 1999), informally, there is a demand for mutual trust among all stakeholders concerned. For instance, global firms need to foster trust relationships with the governments and citizens of foreign jurisdictions. Third, competition in the global and virtual environments is intense and often filled with uncertainty and risk. Trust is an essential change agent that helps reduce uncertainty in the contexts of interaction and cultural integration among economic/social actors (Busco, Riccaboni, & Scapens, 2006; Gambetta, 1988). The complexity of organisational change requires confidence in the reliability of two forms of trust as suggested by Giddens’ (1990) *trust-in-person* (that is, specific individuals) and *trust-in-system* (abstract systems or institutions) (briefly discussed in Section 3.2.1). These two forms of trust are interrelated as the degree of trustworthiness is determined by experience and reputation due to the trustor’s lack of expertise in modern advancements.

3.5.2 Complexity of market dynamics

Closely related to organisational change is the development of stock exchanges as the financial centres of capitalism. The dynamics of the capital market have changed as a result of three factors. First, the integration of a global capital markets allows investors or firms to invest in or issue financial securities without the constraint of national borders. Second, the emergence of resourceful institutional investors represents large pension funds and mutual funds. Third, there emerges an unprecedented proliferation of financial products such as financial instruments and institutions (Bradley et al., 1999). While the

²⁷ This phenomenon is manifested in recurring incidents of organisational restructure and outsourcing resulting in employee job displacement and redundancies. This also creates negative emotional reactions not only among the employees but also among the public.

actual act of investment is made easy by technology, unsophisticated investors often find it more difficult to make investment decisions because it is not easy to assess operating and business risk due to the increasing complexity of company accounts and the highly volatile global economy. With investment decisions becoming more complex and difficult to unravel for investors, trust in the implicit and explicit opinions of those deemed to be more knowledgeable has increased. This trust can be undermined through misplaced personal trust and/or by some underlying factors of distrust such as the conflicting interests of accounting and finance personnel, the “cashing in” of stock options by managers, a porous regulatory system, and a cavalier and “public be damned” attitude on the part of many corporate executives and professional money managers (Lorsch et al., 2005; Olsen, 2004). The robustness of the capital market depends on investor activity and trust is a prerequisite for fluid market exchanges. It is therefore important to view economic transactions as “part and parcel” of social exchanges representing a specialised form of interpersonal behaviour or institutional behaviour that has the potential to contribute to human welfare. It is through this understanding that organisational (and institutional) trust and trustworthiness could be cultivated for the common good.

3.5.3 New perspective of agency relationships

With organisational change and increased complexity of financial market dynamics, the concept of agency has become much broader than that popularised by the economists. Based on the assumption of individual utility maximisation, it highlights the potential conflicting interests between principals and agents with the principal, the party possessing more power, putting in place some incentive schemes as monitoring mechanisms to mitigate unfavourable opportunistic agency behaviour, the cause of many governance problems (Jensen & Meckling, 1976; Shapiro, 2005). However, this methodological individualism places little emphasis on trust even though it explains managerial behaviour (monitoring and control) that can affect employees’ perception of trust, and as such, negates the trend of contemporary business developments.

The current business environment shows that economic actors are not just principals or agents, but often both at the same time even in the same transaction or hierarchical structure (Bradley et al., 1999; Olsen, 2004; Shapiro, 2005). For instance, institutional owners who directly interact with corporate managers are in reality agents of a diffuse

group of fund shareholders who may know or care little about the operations of any particular company. In the current economic model, many owners are also investors. If investment managers are agents for the firm's investors, then those investors must rely on an agent and the agent of an agent (that is, the investment manager and the corporate manager) to deploy their capital in a productive manner. These complex relationships have thus created cascading agency problems in the investment community (Bradley et al., 1999). It is far more complicated than the traditional dyadic principal-agent relationship as it has extended to include multiple principals and agents. The chain of agency relationships results in a new phenomenon – the fact that investors and managers are faced with the problem of evaluating the reputations and potentialities of individuals, and firms and, on that basis, of deciding who – not whether – to trust (Armstrong, 1991; Bradley et al., 1999; Olsen, 2004). However, this dyadic relationship between individuals (principals and agents) might need less in the way of monitoring devices if there is an established relation of trust (Bowie & Freeman, 1992). Arrow (1974) has stressed the importance of trust in any exchange relationships and it can incorporate different levels [trust] into the system taking into account the effect of reputation and cooperation. Different to normal market relationships which tend to be short-term and anonymous, principal-agent relationships are generally repeated, long-term, and personal, thus making socially mediated cooperation an obvious advantage and it is worthwhile to nurture the alignment of firm-interests and self-interests (Bradley et al., 1999).

As can be seen from the above discussion, the new economic order in the past few decades has heralded in some new changes and complexities. As a complex network of intertwining and conflicting rationalities and power relationships (Herman, 1992), the modern corporation has constrained human thought and action in the marketplace and led to a series of incidents with significant impact on trust and business ethics. To redress the issues while at the same time accepting that economic rationality of efficiency is an indispensable ingredient in the relationship between corporations and participants (Herman, 1992), it is vital to implement some trust-engendering measures to repair the situation. However, parties can trust only when they are confident that they share some commitment or cause and willingly move beyond the narrow means-end rationality orientated in particular interests (that is, common good).

3.5.4 Mechanisms to engender trust

We often speak of honesty, trust, and integrity as if people are born with those virtues. However, virtue is achieved by efforts in honing human nature and combating institutional constraints. In the business environment, no business can last long without a level of trust and concern for others (Cavanagh, 2010). Contrary to the beliefs of market fundamentalists, the market does not self-correct and it does not automatically work for the common good or the collective interest of the community without some intervention/effort (regulation and otherwise) to mitigate untrammelled individualism and to promote/enhance intrinsic values of market participants. With the new economic order come new roles and responsibilities for corporations and managers. In view of their significant roles in contemporary economies, it is pertinent for them to initiate a “value shift” to tackle emerging new standard of corporate performance/governance (Bloomfield & Murray, 2008; Paine, 2003).

According to Arvidsson (2009), outside the business world proper, there is an increasing focus on social production and massive demand for products and processes that reflect values other than market price (ethical, fair-trade goods). Within the business world, there are two forms: an emerging consciousness of the inadequacy of monetary rewards as incentives and a growing awareness of the inability of market prices to reflect the real productive power and social value of an organisation and its resources. It is high time for the business community to build a viable ethical capital by taking responsibility, giving something back, and contributing to the common good. However, it is unlikely that trust can be repaired through the actions of individual market participants alone. Trust repair efforts are necessary at the interpersonal level but more importantly at the organisational or institutional level. In business relationships where most of the trustors will have no opportunity to build a personalised relationship, they will have to trust those employed by the organisations as representatives of complex “expert systems.” The “trustworthiness” of these experts emanates from the systems that develop their skills and the rules/standards that constrain their behaviour. Recognising that trust and ethical conduct are subjective in nature and relate to human attitude and behaviour, institutionalised norms and procedures are the basis of trust as the act of compliance helps to channel social behaviour into certain patterns thus making them more predictable (and trustworthy). The neo-institutionalist view in management studies (see Greenwood & Hinings, 1996; Powell & DiMaggio, 1991) echoes this basic sociological

insight that strong institutional rules and norms can help to mandate and reinforce trustworthy behaviour (Gillespie et al., 2012).

It is important to be proactive in deciding on the approach to be taken in rebuilding and engendering trust within the business community (Byron, 2006). There is evidence to suggest that both legislative regulation and self-regulation are necessary since either form alone is unlikely to be effective in this area (Stone, 1975). The approach to be taken should be eclectic comprising both rules and principles – bearing in mind that either rules-based approach by itself or principles-based approach by itself is unlikely to achieve the purpose. As such, there should be a coordinated effort involving all relevant parties such as government, industry, professions, and academia (education and research).

3.6 CHAPTER SUMMARY

This chapter has shown that trust enhances relationships and distrust disables relationships. Trust is essential for interpersonal interaction and group behaviour, managerial effectiveness, economic exchange, and social and political stability (Hosmer, 1995). Trust has become increasingly important in business as a result of the changes in organisations and society, the advances in technology and knowledge, and the ethical issues emanated from these changes (Brenkert, 1998a). In particular, trust has major consequences for the capitalist economies as it can help to promote cooperation between parties in business relationships. In business and accounting settings, it can help to reduce transaction costs, ensure the sharing of sensitive information, allow for the forming of joint projects, and lay the foundation for morally sound business transactions (Arrow, 1974; Noreen, 1988). The chapter has also shown the consequences of untrammelled capitalist pursuits that have led to an erosion of business ethics and a downward spiral of trust. However, one must recognise that there are both virtues and flaws in capitalistic pursuits. Despite their flaws, to date, capitalism is still the foundation for wealth and value creation all over the world. What have shaken its equilibrium are the relentless competitive pressures in the turbulent business world leading the economic actors astray. Capitalism, in its new economic outlook, still rules, but it definitely needs to adjust its rules to maintain relevance.

The recent corporate scandals are not the first to lead to the erosion of trust and ethics;

they would by no means be the last. One must accept that business failure will always exist in free markets, even the best set-up – new stringent laws, new business models, and even the most progressive technology – cannot guarantee their total eradication. One must also accept that the existence of a legal framework with an effective enforcement can only curb the blatant cases of ethical transgressions and trust betrayals. Well-developed economic systems require not only legal compliance but also the cooperation of their major constituents (Garten, 2002). The support of business people at all levels is essential to show that they are willing to take the responsibility of self-control to cooperate, compromise, and nurture some basic shared societal values such as integrity, fairness, honesty, stewardship, respect for human dignity, and concern for others.

A globally connected society requires a globally valid embodiment of value to support its “emerging planetary consciousness in rational actions” (Arvidsson, 2009, p. 26). Trust may not be an all-purpose solution to contemporary business problems; it can help to resolve some collective action problems by reducing transaction costs and social costs. Since people who trust others are most likely to endorse the prevailing moral code in their communities (Uslaner, 2002), one can therefore deduce that there is a moral dimension of trust. The ultimate goal is to seek for a perpetually sustained equilibrium for the common good. This new balance does not promote the unrestrained exuberance of the free market; neither does it rely on heavy-handed government legislation. It is something in between. This “something-in-between” can be achieved through trust because the viability of a new globalised economy depends on well-blended trust – a mixture of hard, good, and real trust suggested by Fort (2007).²⁸ Therefore maintaining trust in this complex world is about complying with the core values of human existence – the ethical and moral principles. Corporations having an interest in repairing trust in business relations must respond to the demands for institutional change to be ethically engaged organisations. Concurring with the findings of Gillespie et al. (2012) about the neo-institutional perspective on institutional change, the next chapter employs institutional theory to conduct a *meso*-level discourse analysis of the institutional environment of corporate code of ethics.

²⁸ According to Fort (2007), “hard trust,” which relates to the rule of laws, requires compliance with societal expectations. “Good trust,” which emanates from human being’s innate desire to be good, has the capability to lead to ethical behaviour through building empathic communities. “Real trust” focuses on managerial strategies that make good ethics good business. When integrated together, these three dimensions of trust can create the corporations that contribute to sustainable peace.

CHAPTER 4

AN INSTITUTIONAL PERSPECTIVE OF THE PREVALENCE OF CORPORATE CODES OF ETHICS

4.1 INTRODUCTION

Chapters 2 and 3 have provided the broad socio-economic and political context (the *macro* level of discourse analysis) of corporate codes of ethics. This chapter provides a *meso*-level analysis of the dynamic context to explain how the unfolding situations and events promote the production of corporate codes and how corporations actually go about producing the codes. It offers an institutional perspective of the reasons why corporations use codes of ethics as organisational structures to attain legitimacy. It draws on neo-institutional theories²⁹ from the management and organisational literature to explain corporations' adoption of corporate codes of ethics as an act of institutional isomorphism. Specifically, it builds on the discussions in previous chapters and presents a framework identifying and explaining the exogenous and endogenous institutional pressures that motivate the institutional actors (corporations and managers) to produce corporate codes to meet public expectations about business and its ethical responsibilities.

As explained in Chapters 2 and 3, capitalistic pursuits have become the mainstay of contemporary society, with business organisations, particularly big businesses playing important roles in the economies. The defining events of the 20th century, such as the stock market crashes in 1929 and 1987, and the corporate scandals of the 1970s to 1990s, undermined public trust in institutions, particularly in the big corporations and their managers. The trust in them declined further at the onset of the 21st century when a series of high-profile financial failures came to light and then closely followed by the global financial crisis. Such events have revealed that, in their capitalistic pursuits, corporations and their managers have often been blinded by the desire to maximise short-term profits and made judgements motivated and supported by greed, irresponsible lending practices, financial engineering, opaque financial instruments, and the like (Bakan, 2004; Jackson & Nelson, 2004; Rowland, 2005). Such scandals signify the ethical lapses that an efficient economy can do without – as they involve the perils of public outrage, loss of

²⁹ As mentioned in Footnote 3 in Chapter 1, this thesis refers to “neo-institutional theory” as “institutional theory.”

trust, tarnished public image, and goodwill that are expensive to generate initially and extremely difficult to regain once lost. To ensure organisational survival, these threats must be minimised, if not totally eradicated to (re)gain trust, credibility, and legitimacy.

Such unfortunate events have led to questions about the current economic system and the institutions upon which it is founded. As discussed in Chapter 3, contemporary business and economic events have exposed the contradictions inherent in the capitalist system signalling that a liberal, capitalistic-oriented economy cannot function efficiently and effectively without some ethical guidelines. These guidelines, in the form of an accepted set of ethical rules/principles, constitute the foundation of the economy. Calls for ethics reforms to strengthen the economic system have become a recurring theme with every outbreak of corporate scandals and financial crisis. Judging from the scope and scale of the latest wave of scandals, the moral pendulum seems to have swung once again from unquestioning acceptance of moral authorities in earlier eras (as mentioned in Chapter 2) to nostalgia for a return of the “old” values³⁰ that would help to restore public trust (Scott, 2002). It would appear that this re-emphasis on ethics in business is a dawning realisation that an economic crisis is also a moral crisis (Moore, 2012). It is also a manifestation that ethics, or to be specific, ethics-based trust, is an essential prerequisite to any business dealings.

This is reflected in the emergence of a movement towards ethics betterment within the business fraternity in the 1970s and 1980s (see discussion in Chapter 2, Section 2.4). The impetus to this movement was the surge of outrage over serious corporate misdeeds such as corruption, fraudulent reporting, and malpractice, which were generally regarded as the causes of widespread social, economic, and environmental problems. In response, organisations have employed a variety of mechanisms, for example, ethics committees, ethics officers, ethics training and, most prominent of all, codes of ethics or codes of conduct, to present themselves as ethical entities. To date, there has been a proliferation of corporate codes of ethics and an increased emphasis on corporate responsibility. The loss of credibility and public trust are detrimental to the legitimacy and survival of corporations.

³⁰ There is no definitive list but Scott (2002) has highlighted four categories, namely, respect for life, respect for property, honest communication, and respect for religion. These would appear to be values revered by the public in past generations as alluded to in Chapter 2.

Many explanations have been proffered about the prevalence of corporate codes, ranging from promoting public trust to the advancement of the common good. No single reason seems adequate to explain the phenomenon. Further, under the scrutiny of the media and the increasingly inquisitive public, corporations have been experiencing divergent pressures as the voluminous corporate misdeeds unfold. Although it is contested whether corporations have social and ethical responsibilities beyond their wealth-generating function (Friedman, 1970), there exist today increasing internal and external pressures on business organisations to fulfil broader social goals (Aguilera et al., 2007; Donaldson & Dunfee, 1999) for their long-term survival. Institutional theory stresses the importance of the institutional environment in understanding organisational behaviour. It accentuates that organisations are embedded in a particular society they operate in and conforming to the institutional rules and norms of that environment will legitimise their existence (Shepard, Betz, & O’Connell, 1997). The theme of the chapter is illustrated in Figure 4.1. It briefly depicts the isomorphic pressures (triggered by the loss of public trust) on the corporations to employ codes of ethics as the mechanism to compete for institutional legitimacy to ensure survival.

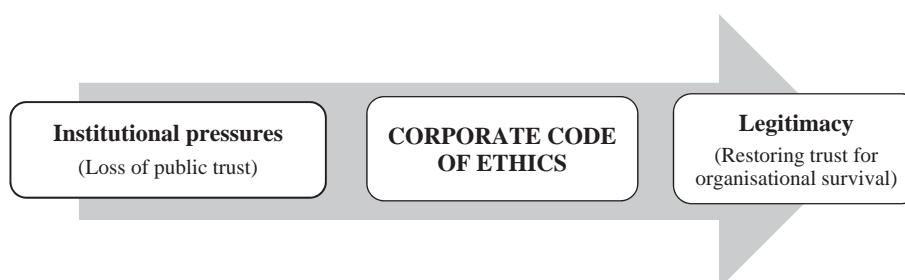


Figure 4.1 Corporate Isomorphic Change – The Legitimacy Pursuit

The remainder of the chapter comprises four sections. Section two describes the prevalence of corporate codes of ethics. This involves a discussion of the increasing importance of corporate ethics, the geographic spread, and the expressed functions of codes of ethics. Section three examines the environmental pressures in the form of exogenous and endogenous forces motivating corporations to use codes of ethics as a means to pursue legitimacy. Section four employs the concepts of isomorphism and legitimation popularised by institutional theorists to explain the widespread adoption of codes. It examines how corporations respond to institutional pressures to conform to socio-cultural expectations through a process of institutional isomorphism – coercive,

mimetic, and normative – to gain organisational legitimacy. The last section concludes the chapter.

4.2 PREVALENCE OF CORPORATE CODES OF ETHICS

In recent years, an increasing number of large businesses around the world have produced codes of ethics. Codes of ethics, however, are not new organisational artefacts (Adams, Tashchian, & Shore, 2001). Many elite professions also have their own specialised codes of behaviour. For instance, lawyers have the Model Rules of Professional Conduct; medical practitioners have the Hippocratic Oath; accountants have their code of ethics; and journalists, public relations professionals, engineers, psychologists, nurses, and even tradespeople have their own documented set of standards for professional conduct (Backof & Martin, 1991; Harvard Law Review, 2003). In the early to mid-20th century, the ethical tone and practice of a business was implicit. It was also not uncommon for company founders and senior managers of businesses to lead by example without any explicit guidance on ethical matters (Webley & Werner, 2008). It was a fairly easy task due to the relatively small size of the businesses and the familiarity with operations by the owners/managers. Some notable exceptions were J.C. Penney Company's "Penney Idea" which first appeared in 1913 and Johnson & Johnson's Credo in 1943 (see Oliverio, 1989, referred to in Chapter 2, Section 2.5). Since then, there was evidence to show that codes have been produced sporadically over the years when business leaders felt the need to do so (Benson, 1989).

4.2.1 The geographical spread

The popularity of corporate codes has grown among larger U.S. companies, particularly in the last three or four decades when the business ethics movement began to take shape in that country. Studies in the 1950s found between 15 and 40% of large U.S. companies producing codes of ethics (Adams et al., 2001). Later studies found that this percentage had increased immensely throughout the 1970s, 1980s, and 1990s. By 1992, the proportion had increased to 93% of U.S. firms (Center for Business Ethics, 1992) and 83% of firms in North America and Europe (Adams et al., 2001).

In the 1980s and 1990s, Europe lagged behind the U.S. in code adoption (Kaptein & Wempe, 1998; Langlois & Schlegelmilch, 1990). Then, following the example of many organisations in the U.S., an increasing number of European companies, trade

organisations, (semi-) governmental organisations and even professions began to develop codes of ethics in earnest to deal with various corporate issues (Kaptein & Wempe, 1998) and labour relation issues (Sobczak, 2003). A KPMG survey (2008) reported this growing prevalence, affirming that 86% of the Fortune Global 200 companies had their own codes, which contrasted significantly with the handful in the 1970s, 14% in 1990, and a dramatic increase in the past decade. A breakdown by region shows North America leading (100%), followed by Europe (80%) and Asia (52%). This trend was also found in a survey conducted by Svensson, Wood, Singh, and Callaghan (2009) of the largest corporations in Australia, Canada, and Sweden. To date, most large companies, particularly those in the U.S., have developed their own codes of ethics. Harvard Law Review (2003) reported that 90% of Fortune 500 companies and approximately half of all other companies had some type of code by the early years of the 21st century. This growth has been accompanied by heightened research interest in business ethics and corporate codes.

In the U.S., the growth of corporate codes of ethics has followed the ebb and flow of corporate scandals and egregious behaviour over the years. Each significant period of corporate fraud, unethical management behaviour, and questionable financial reporting was followed by a tightening of regulation to impose ethical conduct on the securities markets, the corporations, and the finance professionals to mitigate the recurrence of unethical behaviour to improve corporate governance³¹ (Rockness & Rockness, 2005). However, as the law alone does not, cannot, and probably should not dictate all aspects of what a society might consider moral behaviour (Weller, 1988), it is deemed useful that corporate codes should be part of the repertoire of corporate governance to bring about widespread code adoption (Harvard Law Review, 2003). The increase in European codes may be an indication that codes made their way into Europe via subsidiaries of U.S. firms and the indirect effect of the trend of global business (Langlois & Schlegelmilch, 1990).

Corporate codes are a key feature of the business ethics movement. They have become widespread with the support of scholars, international governing bodies, business

³¹ For instance, fraudulent trading practices for managerial personal gains in the 1920s, real estate scandals supported by creative accounting in the 1960s, international frauds and bribery in the 1970s, Wall Street corruption, insider trading, and fraudulent reporting in the 1980s, the dot.com bubble in the 1990s, and a new round of corporate failures such as Enron in the early 2000s.

associations, stock exchanges, and other securities agencies who have been calling on companies to develop their own codes (Kaptein, 2004) to regulate not only domestic but also international business behaviour³² (Galavielle, 2004; Jenkins, 2001). To provide a better understanding of what a corporate code of ethics entails, the next sections examine the role and functions of the corporate code in corporations.

4.2.2 The role of corporate codes

A general expression of the role that a code should play in an organisation is to promote ethical behaviour and decision making (Gaumnitz & Lere, 2002). Early U.S. ethical codes were called “creeds” or “credos” (for example, Johnson & Johnson Credo mentioned earlier in Chapter 2). The 1980s codes, as a response to mitigate the unsavoury consequences of scandals at the time, tended to be “legalistic” and “more likely to talk about ethics or the reputation of the company” (Benson, 1989, p. 308). They were fairly detailed and showed concern about relations to employees, inter-employee relationships, whistle blowing, bribery political activities, and environmental impacts (Benson, 1989). More recent codes are written documents which attempt to state the major philosophical principles and articulate the values embraced by the organisation – the ethical parameters of *what is*, and *what is not*, acceptable (Stevens, 1996). In particular, the code defines the responsibilities of the corporation towards its stakeholders and/or the conduct the corporation expects of employees (Kaptein, 2004). It specifies the objectives the company pursues, the norms and values it upholds, and what it can be held accountable for. Such clarifications aim “to reduce the occurrence of incidents, to improve the extent to which stakeholder expectations are realized, to boost stakeholder confidence in the company and to encourage the authorities to relax regulations and controls” (Kaptein, 2004, p. 14). In short, a code is an instrument to increase the moral resistance of an organisation (Kaptein & Wempe, 1998). The extent an organisation can resist pressures to fulfil its responsibilities with respect to stakeholders thus provides a basis for public expectations and evaluation.

Although there are striking national differences in content among the codes, in general, code content can be classified as either inspirational or prescriptive (Farrell & Cobbin,

³² Developing codes of conduct as an attempt to bring justice to international business behaviour is not new. Three comprehensive codes developed in the last decades: Caux Round Table: Principles for Business (1996), Global Sullivan Principles (1999) and United Nation’s Global Compact with Business (2000) (see Cavanagh, 2004).

2000) or a combination of the two. The distinction is based on the extent of the ethical perspective an organisation assumes.³³ *Inspirational* codes empower members to be ethical (that is, with values/principles, which are considered appropriate for the group and to be applied by individually when making ethical decisions). *Prescriptive* codes focus on the behavioural outcomes required as responses to described circumstances or moral hazards. This is shown in the language and concepts used in the code where the addressee is expected to comply with action producing the desired outcome.

Studies of code content found that there were some regional differences among the codes. Langlois and Schelgelmilch (1990), in their international code comparison of four countries – the U.S., Germany, France, and England, found that there were some national characteristics impacting on code content, with the U.S. codes tending to emphasise government and customer relations more than the European and British codes. These findings were supported by Kaptein (2004) in his study of the codes of 200 multinational firms. Despite some common themes regarding company responsibilities for product quality and services, obeying laws, and protecting the environment, there were some obvious differences, with the European codes focusing more on environmental issues, the North American codes more on values like honesty, and both European and Asian codes more on fairness.

Broadly speaking, corporate codes have a tendency to reflect the sentiments or cultural shifts of their own context. For instance, in the 1980s, the U.S. codes leaned towards showing more concerns over unethical behaviour that might decrease profits than committing themselves to social responsibility (the environment, quality, or product safety) (see Cressey & Moore, 1983). The focus of these codes was on tackling issues prevalent at the time, such as illegal activities and employee misconduct relating to conflicts of interest, gifts, and misuse of confidential information (Pitt & Groskaufmanis, 1990; White & Montgomery, 1980) regulating and complying with federal laws (Sanderson & Varner, 1984; Stevens, 1996). The codes were therefore primarily designed toward corporate self-defence against illegal behaviour without any visionary perspectives in providing guidance (Sanderson & Varner, 1984; Stevens, 1996).

³³ There are other categorisations of codes. For example, Frankel (1989) identified three types: aspirational, educational and regulatory. An *aspirational* code is a statement of ideals to which members should strive. An *educational* code seeks to buttress understanding of its provisions with extensive commentary and interpretations. A *regulatory* code contains a set of detailed rules to govern conduct and to serve as a basis for adjudicating grievances.

Recurrent corporate scandals in the U.S. have seen the more recent codes containing self-regulatory corporate governance rules that a company generates voluntarily, as opposed to rules imposed by law (Harvard Law Review, 2003). Depending on the nature of business, the codes cover a wide range of issues, for example, conflicts of interest, confidential information, insider trading, labour relations, gifts, and political contributions. “Some corporate codes delineate business goals and sketch ethical boundaries. Others focus on corporate social responsibility and human rights. Still others set out procedures for periodic self-evaluation and investigation. Many codes combine all of these topics” (Harvard Law Review, 2003, Footnote 18). The next section examines some generic functions of codes.

4.2.3 Code functions

A corporation has a difficult task on hand to maintain a balance between fulfilling its duties for its members (internal stakeholders) and responding to the demands of the broader society (external stakeholders). As a document defining the corporation’s approach to accommodate these often conflicting interests, it is not surprising that the contents of codes tend to employ an eclectic range of approaches combining the aspirational/inspirational, educational, and regulatory/prescriptive features (see Frankel, 1989).

Codes serve multiple functions in an organisation and organisational context can greatly influence people’s interpretations of and responses to codes of ethics or other formal policies (Weaver, 1995). Prior research confirms that corporations adopt codes for an array of reasons, some of which could be motivated by pecuniary incentives, some driven by social norms such as fairness, reciprocity, trustworthiness and promise-keeping, and others a mixture of both (Davidson & Stevens, 2013).

Frankel (1989) has compiled a catalogue of eight functions for codes of professional ethics. Although they focus on the relationship between a profession and its members, its clients, and the larger society, the guidance that they provide is applicable to other organisations such as corporations. These eight functions are: (1) enabling document; (2) source of public evaluation; (3) socialisation; (4) enhancing reputation and public trust; (5) preserving entrenched biases; (6) deterring unethical behaviour; (7) support system; and (8) adjudication.

- *Enabling document* provides group guidance for an individual when that individual faces a novel or confusing situation. It sends symbols, signals, and messages (Stevens, 1994) to both internal and external stakeholders of the organisation's commitment to ethical practices (Murphy, 1995). It helps to shape change and send messages about expectations of standards (beyond that of the law).
- *Source of public evaluation* provides a basis for public expectations and evaluation of the organisation (Stevens, 1994, 2008). It also helps to satisfy external criticism (Kaptein & Wempe, 1998) by holding the firm and individual members accountable.
- *Socialisation* strengthens the sense of common purpose among members of the organisation. It is an attempt to institutionalise the morals and values of the company/organisation (Weiss, 1994) by creating and sustaining a feeling of community and mutual obligation that members have toward each other and toward the organisation (Khurana & Nohria, 2008).
- *Enhancing reputation and public trust* preserves or improves corporate reputation and (re)gaining public trust by demonstrating and managing its moral responsibility to contribute to the resolution of social problems (Kaptein & Schwartz, 2008). This shows concerns about public perception.
- *Preserving entrenched biases* preserves entrenched organisational biases in advancing its values to define its social role and, in particular, in affirming its socio-economic status making it an affirmative duty to report errant incidents to uphold the group's integrity (Benson, 1989). It may also be used to censor deviant ideas from within the organisation thereby ensuring that entrenched biases prevail over potential innovation (Frankel, 1989).
- *Deterring unethical behaviour* is an attempt to prevent or mitigate unethical behaviour by identifying sanctions and creating an environment in which reporting unethical behaviour is affirmed. It aims to provide greater self-policing (Harvard Law Review, 2003).
- *Support system* clearly specifies resources available to help and/or support

employees when they are at a crossroads in deciding what to do. It guides individual behaviour and prevents the illegal and unethical behaviour of employees (Long & Driscoll, 2008).

- *Adjudication* serves as a basis for resolving disputes among internal stakeholders and between internal and external stakeholders. It acts as a legal defence mechanism and decreases the inconvenience of legal wrangles in case of transgressions (Kaptein & Schwartz, 2008; Pitt & Groskaufmanis, 1990).

Although this is not an exhaustive list of code functions, it does appear to capture the specific purposes considered essential for a corporate code of ethics. The functions themselves are not mutually exclusive but are intricately related. For example, an explicit code not only provides employees with guidance (Functions 1, 3, 4, 5, 6), it can also be used in defending against legal proceedings brought in response to employee behaviour (Function 7), that is, providing a basis for evaluation of the organisation (Function 2) and serving as a basis for adjudicating disputes (Function 8). A close examination of these different functions shows that they can be divided into two groups: internal functions (targeting at internal stakeholders) and external functions (targeting at external stakeholders) (Kaptein, Klamer, & Wieringa, 2003, cited in van Zolingen & Honders, 2010, p. 386). When viewing these functions from the “motive” angle, they can be placed under three main groups: *instrumental* (self-interest driven), *relational* (concerned with relationships among stakeholders), and *moral* (concerned with ethical standards and moral principles) (Aguilera et al., 2007).

In sum, the growing importance of corporate codes can be attributed to the increasing demands for corporate accountability; the need for more core principles that are universally applicable; and the acceptance of these codes as part of corporate governance through the improved ethical literacy and awareness of senior managers (Singh, 2011). The next section examines these trends in more detail focusing on the forces that motivate companies to adopt codes of ethics.

4.3 MOTIVATIONS FOR CODE ADOPTION

The modern business environment is highly complicated in that it comprises a complex web of interrelated constituents who have their individual demands and constraints. As

an integral part of the modern market economy, corporations can affect the interests and well-being of individuals and entities that depend on them. Their own well-being, on the other hand, is subject to the expectations and demands of other more powerful social institutions (see Chapter 3, Sections 3.4 and 3.5). Since corporations are embedded in global, national, or personal systems, their success is assessed not only on technical and financial terms but also on their moral and social performance (Aguilera et al., 2007; Frankel, 1989). They have to endure a multifarious range of pressures to fulfil these broader social goals. Some of the pressures are external to the organisation while others are internal to the organisation.

Corporate codes of ethics are one of the management mechanisms developed to provide moral guidance for corporate members and an evaluation benchmark for the public. As socially constructed creations, they are not static but ever evolving in response to a blend of economic, social, legal, and political events taking place in the broader society. The morals and values articulated in the codes therefore embody the prevailing ethos of the time (Backof & Martin, 1991; Stevens, 1994, 2008). As can be seen from the discussion of code functions in the previous section, there are two imperatives for code adoption: exogenous (externally driven) and endogenous (internally driven). The following sections examine these two motivations in producing codes of ethics.

4.3.1 Exogenous forces

Since the latter part of the 20th century, huge societal and cultural changes have taken place in the U.S. showing a shift from a producer culture to a culture encompassing liberal individualism, a calculative or technical rationalism, and a firmly embedded consumer culture³⁴ (Preston, Cooper, Scarbrough, & Chilton, 1995). These socio-cultural shifts have created a new outlook among the general public in that country accompanied by a heightened awareness of ethical issues in the business community.³⁵ Because business organisations are embedded in the broader environment in which they operate, they have to respond to the demands/pressures in this environment (see Chapter 2 regarding the evolution of moral rules in business).

The externally-driven imperative is normally developed to meet the standards and

³⁴ Led by the U.S., other western economies also experienced such changes.

³⁵ This phenomenon took place first in the U.S. and then spread to other European and Asian countries. In a way, it also coincided with the emergence of a new culture of capitalism discussed in Chapter 3, Section 3.3.1.

expectations of society. This imperative arises due to the negative perceptions of behaviour of a particular company (companies) and/or specific sector (sectors). In the last few decades, frequent occurrences of corporate scandals had led to an erosion of ethics and a breakdown of trust. Explicit exogenous pressures on corporations to develop some ethics initiatives come from “relatively entrenched, influential, and pervasive elements of the external environment” (Weaver, Trevino, & Cochran, 1999b, p. 541). They reside in the corporations’ dependence upon powerful stakeholders and interest groups, and the existence of social expectations and pressure on them to exercise responsible stewardship through their operations (Nicholson, 1994). The most influential pressures come from overt government requirements and stock exchange listing rules. Other pressures are from the media, high-status business “fashion setters,” and special interest groups (Weaver et al., 1999b).

These exogenous pressures are relatively clear in both the *end* that is proposed (ethical corporate behaviour) and the *means* that is considered appropriate for achieving the end (broad-scope ethics programme structure). Compliance with the regulatory systems and social norms is generally mediated by ethics code adoption. Such a discourse is a signal of corporate intent to conform to stakeholder expectations so that they will be accessible to important resources vital for their continued existence. Non-conformance exposes an organisation to the risk of serious consequences in the like of lost legitimacy, imposition of sanctions, and reduced cooperation from social actors important to organisational survival (Weaver, Trevino, & Cochran, 1999a).

4.3.2 Endogenous forces

Endogenous motivations are internally generated through introspection and interaction (Nicholson, 1994). They reflect corporations’ initiative to maintain a moral social order in two aspects: one, as a response to external public pressures, and two, as an expressed commitment to the organisation’s own principles and beliefs. As discussed previously, critical incidents such as corporate scandals have attracted media attention, ignited vehement public outcry for corporate accountability, and resulted in government intervention. In morally ambiguous situations, business leaders have to embrace ethical values and beliefs taking into consideration the ethical character of the company as a moral agent and their own moral awareness as leaders. They can act both proactively and reactively, exercising choice in addition to responding to real or perceived external

expectations (Weaver et al., 1999a, 1999b). Their stance towards code adoption can reflect their own commitment to responsible, ethical behaviour as an end in itself – a concern for integrity, fair treatment of others, and “doing the right thing” for its own sake, and not merely for strategic, instrumental, and financial reasons. This articulation of values can influence organisational culture and nurture ethical organisational practices (Weaver et al., 1999b).

The internal imperative within a company to emphasise certain values and commitments can never be indifferent to external pressures and perceptions. As society evolves and as personal or intimate relations are replaced by impersonal and contractual relations, there is a burgeoning of self-interest (Laufer & Robertson, 1997), which can be detrimental to corporate success. Code adoption may also arise from a legitimate concern with corporate reputation, of which perceived ethical standards will be an important part (Wright & Rwabizambuga, 2006). Managers who are committed to ethics are likely to encourage a values-oriented approach to ethics management by fostering employee identification with and commitment to a set of shared ethical values through social control (Laufer & Robertson, 1997) and corporate identity (Verbos et al., 2007). Even though values and compliance orientations are not mutually exclusive, top management commitment to ethics and their expectations about accountability (“tone at the top”) can have a more comprehensive impact, affecting both compliance and values orientations of subordinates.

Social control is manifested in the regulation of individual and organisational behaviour in order to ensure ethical conformity and observance to norms to create a social and moral order. The morals and values unique to the organisation (that is, corporate culture) are internalised into the members through formal or informal processes of socialisation to ensure a better sense of the common purpose of the organisation. Effective social control helps to promote a positive corporate identity. The presence of a code of ethics helps to establish such an identity. In addition, managers can use code adoption to signal to external constituents not only their ethics commitment but also the positive, imperceptible qualities of the organisation. All these can help to enhance corporate reputation and prestige (Connelly, Certo, Ireland, & Reutzel, 2011; Mitnick & Mahon, 2007).

4.3.3 The exogenous-endogenous connection

The exogenous and endogenous motivations are not independent but interpenetrate as companies rarely govern their behaviour by any one of the two imperatives discussed in the previous sections. The decision to produce a code of ethics will usually be brought about by recognition of external expectations and by a strong desire within the company to set its own standards. Endogenous forces, such as management choices, often derive their impetus from wider social structures and norms while exogenous forces, such as regulatory frameworks and institutional practices, reflect the concerns of the external constituencies (Nicholson, 1994). According to Greif and Laitin (2004), ethics codes are a system of human-made, nonphysical elements – norms, beliefs, organisations, and rules – exogenous to each individual whose behaviour it influences that generate behavioural regularities. Such a system moulds the conduct shared in the broader environment. The exogenous-endogenous connection lies in the causal relationship between the two elements. There are *parameters* exogenous to the institution under consideration. If these parameters change, there is a need to study the implied new equilibrium set and, hence, the new possible institutions. *Variables*, on the other hand, are determined endogenously by the institution under consideration. “Institutions are the endogenous variable, adjusting as exogenous circumstances change” (Greif & Laitin, 2004, p. 634). Institutionalised norms and shared beliefs provide the motivation for behavioural regularities. Organisations are institutional elements that influence the set of beliefs and norms that can be self-enforcing. Ethical rules are behavioural instructions that assist individuals with the cognitive task of choosing behaviour by defining the situation and coordinating behaviour. As the environment changes, new institutions evolve organically (or are intentionally designed) through adjusting or manipulating institutional elements while supplementing existing elements to generate the desired behaviour (Greif & Laitin, 2004).

It can be seen that corporate ethical betterment cannot be achieved without both exogenous and endogenous motivations. Exogenous shocks need a positive response from corporate leaders. In their pursuit of corporate legitimacy, business leaders show their managerial skills in tackling organisational issues. In applying those skills, they incorporate a positive sense of ethical propensity and a strong sense of duty.

4.4 AN INSTITUTIONAL INTERPRETATION OF CORPORATE CODE ADOPTION

Thus far, the chapter has described the prevalence of corporate codes of ethics, compiled a list of the functions of the codes, and explained the “exogenous” and “endogenous” forces that might have prompted corporate code adoption. It would appear that organisations operating in the modern economy have been experiencing increasing internal and external pressures to fulfil broader social goals to meet rapidly changing expectations (Aguilera et al., 2007; Cragg, 2002). These divergent pressures, in their varying degrees, force organisations to face their social and ethical responsibilities. To comprehend this social phenomenon, it is important to understand both the historical events and the cultural meanings attributed to these events by the actors involved. Institutional theory emphasises the importance of the wider social context and perceives organisations as products of their environments not merely as “passive objects but products shaped by interactions with their context” (Scott & Christensen, 1995, p. 310). Hence, organisations are perceived as being constructed and shaped by cultural systems embodying symbolically mediating meanings. Since institutional theory is concerned about the role of social and cultural elements in supporting organisational forms in this pursuit, it is fitting to use the institutional framework of isomorphism and legitimacy to explain the motives of corporate code adoption. Institutional theory is particularly relevant for analysing corporations that are confronted with uncertainties and have to compete for political and institutional legitimacy and market position. The following sections examine the prevalence of corporate codes of ethics using the theoretical framework proposed by institutional theorists such as DiMaggio and Powell (1983), Suchman (1995), and Scott (1995, 2014).

4.4.1 The institutional perspective

In modern capitalist economies, the pursuit of legitimacy has much to do with the ethical expectations of corporations and the business community. Ethics is not an arbitrary concept about how we would like society to be, but the equilibrium condition for economic, social, and political systems (Argandoña, 2004). Ethics explains the constraints of institutions and behaviours and acknowledges the same conditions for the development of people and societies. The calamity caused by the recent “tsunami” of corporate scandals supports the premise that ethics, values, integrity, and responsibility are required in the modern workplace (Ball, 2009; Berd, 2010; Joyner & Payne, 2002). It

is therefore incomprehensible for a society to evolve towards economic optimum without the guidance of ethics, as emphasised by Adam Smith and discussed in Chapter 2.

Previous discussion on the emergence of the business ethics movement (see Chapter 2, Sections 2.4 and 2.5) has drawn attention to the institutionalisation of corporate codes of ethics since the 1970s and 1980s when errant business practices precipitated the need for organisational adaptation to create some ethical equilibrium in business. In light of the wide web of environmental pressures created by decades of financial turbulence and moral turmoil corporations have to contend with, this section employs institutional theory to explain how corporate code adoption was shaped by both exogenous and endogenous forces in the institutional environment. In particular, it explains the sources of isomorphic pressures on the adoption of corporate codes of ethics, the interplay between institutional and broader environments, and the choice and intent of the organisational actors (that is, managers) in responding to the institutional pressures.

Contemporary institutional theory treats organisations as “open systems” with many dynamics sourced not from technological and material imperatives but from cultural norms, symbols, beliefs, and rituals (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 1995; Suchman, 1995). This view argues that much of the stability and order associated with organisations derives from the existence of belief systems and regulatory structures, both formal and informal. In addition, it shows partiality towards the role of cognitive processes of actors and the symbol systems socially constructed by the actors in response to environmental stimuli. This helps to explain why so many businesses have similar structures and cultural elements (that is, isomorphism) even though they are individual entities.

This institutional perspective not only combines concepts of legitimation and isomorphism (homogenisation) but also explains their limitations on behaviour (Scott, 2003; Scott & Christensen, 1995). In particular, it acknowledges the complex relationship between institutional pressures and individuals by exploring the issue of agency that recognises institutional processes as a legitimate area for purposeful action, which explains the motivations for organisational change and stability (De Holan & Phillips, 2002). By focusing on the elaboration of rules, symbols and beliefs, as well as the wider environment of an organisation (Scott, 1987; Scott & Meyer, 1994; Selznick, 1996), it highlights that organisations need to conform to institutional logics (that is,

rules and norms) to legitimise their existence (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) through a process of institutional isomorphism. The following briefly summarises the salient concepts advocated by the theorists.

DiMaggio and Powell (1983), building on Meyer and Rowan's (1977) reasoning about rational myths (rationalised institutional rules) in organisational practice, used the concept of "isomorphism" to explain why organisations within the same "institutional field" (that is, the same domain or area) were so similar. They argued that a large part of organisational similarity could be explained, not in terms of competitive or efficiency pressures, but in terms of organisations' need to be perceived as legitimate within their larger environments. Isomorphism, or compliance with expectations of their institutional environment, was essential for organisational success (legitimacy). They identified three mechanisms through which institutional isomorphic change takes place: *coercive isomorphism* (responding to powerful external pressures); *mimetic isomorphism* (imitating structures and practices of other organisations in the same field); and *normative isomorphism* (showing the ability of agents to respond to cultural pressures). In a similar vein, Scott (1995) used the notion of institution to explain organisational isomorphism. His three pillars of institutionalism, *regulative*, *cognitive* and *normative*, were the structures and activities that provided stability and meaning to social behaviour, as well as a basis for legitimacy. In his framework, organisations could gain legitimacy through connecting their values to these institutional patterns and there were both intrinsic and extrinsic incentives for conformity. Scott (1995) agreed with DiMaggio and Powell that institutional isomorphism resulted because individual actors and organisations adopted, or had imposed upon themselves a wider belief system and cultural frames that promoted the replication of the structures, activity patterns, and cultural mores that were present in their environment.

Subsumed in the DiMaggio-Powell and Scott frameworks is the notion of legitimacy, which Suchman (1995) discussed in more detail. He defined legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574) arguing that the organisation was subject to powerful dynamics (for example, actors or environmental forces) within its institutional environment that influenced its operation. There are three primary forms of legitimacy: *pragmatic* (based

on actor self-interest); *cognitive* (based on comprehensibility and taken-for-grantedness); and *moral* (based on normative approval). All three frameworks viewed legitimacy as “not a commodity to be possessed or exchanged, but a condition reflecting cultural alignment, normative support, or consonance with relevant rules or laws” (Scott, 1995, p. 45).

Table 4.1 presents the basic concepts of isomorphism and legitimacy proposed by DiMaggio and Powell (1983), Suchman (1995), and Scott (1995, 2014). These studies have provided the basis for identifying and explaining the sources of isomorphic pressures on the adoption and prevalence of corporate codes of ethics in recent years. The pressures to conform to extant social mores, the interplay between corporations and their institutional environments, and the actions of individual actors (that is, corporate leaders) to respond to the institutional pressures in adopting corporate codes are addressed in the next section.

TABLE 4.1 *Basic Concepts of Institutional Theory*

VARIANTS OF INSTITUTIONAL THEORY			BASIC CONCEPTS OF ISOMORPHISM AND LEGITIMACY		
DiMaggio & Powell (1983) <i>Institutional isomorphism</i>	Suchman (1995) <i>Organizational Legitimacy</i>	Scott (1995) <i>Pillars of Institutions</i>	Routine	Structure	Logic
Coercive pressures	Pragmatic	Regulative	Expedience <i>(Compliance)</i>	Laws and Rules <i>(Power systems)</i>	Instrumentality <i>(Legally sanctioned)</i>
Mimetic processes	Cognitive	Cultural-cognitive	Taken-for-grantedness <i>(Constitutive schema)</i>	Typifications <i>(Identities)</i>	Orthodoxy <i>(Culturally supported)</i>
Normative pressures	Moral	Normative	Social obligation <i>(Conformity and duty)</i>	Values/Expectations <i>(Authority systems)</i>	Appropriateness <i>(Morally governed)</i>

4.4.2 Institutional isomorphism applied to corporate codes of ethics

In contemporary society, the interplay of many complex and mutual relationships between society, the economic system, and other systems (political, cultural, religious, legal) defines the operation of a market economy. Within this economy, there are intermediate structures called “institutions” limiting and guiding the actors toward some social ends (Argandoña, 2004). Two different but somehow related definitions of institutions are: (1) set of rules or norms constraining the behaviour of and accepted by (economic) actors; and (2) regularities in the actors’ behaviour (self-policed or policed by some external authority) enabling them to solve recurrent problems (Argandoña, 2004).

Regularities of behaviour give rise to social norms or rules which generate a social order (that is, stable, predictable patterns of behaviour, and cooperative behaviour). Ethical rules, in the form of codes of ethics, are one prominent type of “institution.” They have a particularly significant role to play in institutional change as they explain the constraints of institutions and behaviour. Increasingly, corporations are adopting organisational features such as ethical constructs designed to promote proactivity over mere reactivity in their relationships with the broader environment (Shepard et al., 1997). The variety of ethical constructs used as legitimating mechanisms to enhance their reputation as ethical enterprises include ethics committees, ethics officers, ethics in-house training, and code of ethics (Long & Driscoll, 2008). The most common way in which ethics is institutionalised is through the design and implementation of a corporate code of ethics.

Institutionalisation is the process by which societal expectations of appropriated behaviour influences the structuring of corporate behaviour in specific ways (see Dacin, 1997; Meyer & Rowan, 1977; Scott & Meyer, 1994). Legitimacy criteria are to a large degree constructed within an organisational field, made up of a group of organisations that constitute a recognised area of institutional life. The population of firms trading in the market economies can be categorised as an organisational field because they are a network of firms partaking of a common order. Firms in the same organisational field are therefore subjected to the same institutions. They tend to adopt similar structures and practices to attain legitimacy in order to survive in that environment. Firms derive their legitimacy from having structures that are seen as appropriate within the business world. Those that incorporate inappropriate structural elements place their legitimacy at risk. Within organisational fields, there exists a process of institutional isomorphism that leads over time to a convergence, and ultimately, to a homogeneity in behaviours among organisations within the field (Holder-Webb & Cohen, 2012). Isomorphism is a channelling process that moulds organisational units within a field to become more similar as a result of coping with a common set of environmental circumstances. Due to the process of isomorphism, organisational features converge in order for units within a field to adapt more successfully to environmental conditions (Shepard et al., 1997). The following sections examine corporations’ actions in adopting codes of ethics, reactively and/or proactively, in their quest to seek legitimacy for long-term survival. First, the (various) sources of pressure driving such actions are identified. Then, explanation is provided as to the manner in which conformity leads to the state of legitimacy.

4.4.3 Institutional pressures, conformity, and legitimacy

Institutional theories assume that a major determinant of organisational structure is the pressure exerted by external and internal constituencies on the organisation to conform to a set of social expectations (that is, norms of acceptable behaviour) to gain legitimacy and so secure access to vital resources and long-term survival (Brignall & Modell, 2000). Legitimacy has a critical role in the social system (Human & Provan, 2000) because organisations require legitimacy to attract resources and constituents' continued support for their survival (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Social approval will result in cognitive support and commitment as well as resources that will ultimately determine whether the organisation is able to survive as a viable entity. Legitimacy can be assessed by an examination of the values and norms prevalent in a society. Values and norms represent certain cultural expectations (Dowling & Pfeffer, 1975) and are often reflected in the writing and communication of a society at a point in time (Backof & Martin, 1991; Preston et al., 1995; Stevens, 1994, 2008). Organisations seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behaviour in the larger social system of which they are a part. When these two value systems are congruent, organisational legitimacy is attained. When an actual or potential disparity exists between the two value systems, threats to organisational legitimacy emerge normally in the form of legal, economic, and social sanctions (Dowling & Pfeffer, 1975).

Legitimacy is a generalised perception assessing the desired or appropriate state of the actions, activities, and structure of an organisation (Suchman, 1995). It is also a useful concept to analyse the relationships between organisations and their broader environments based on the notion of perception. Since perception can play a crucial role in determining the status and credibility (including reputation, image, and identity) of an organisation, it can be used to analyse the motives and actions taken by organisations for the purpose of legitimation. For instance, actions taken by business organisations in response to threats of legitimacy can be seen as their attempt to conform to the prevailing social values. When exogenous instability threatens an organisation's legitimacy, the organisation will take the initiative to introduce suitable systems to avert the threats to its stability or existence (Selznick, 1996). A common means of gaining legitimacy is adopting a set of structures or practices that aligns with some rationalised institutional myths (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Very often, organisations

become both the object of institutional forces and “the constructor of normative isomorphic influence for organizations at large” for the common good (Fogarty & Rogers, 2005, p. 337). Through institutional isomorphism, they are conferred power, legitimacy, and access to essential resources (Meyer & Rowan, 1977).

According to DiMaggio and Powell (1983), institutional isomorphic change occurs when organisations respond to three types of pressures – coercive, mimetic, and normative, which “constrain, construct, and empower organizational actors” (Suchman, 1995, p. 571). Different pressures tend to exert different demands on organisations and, as a result, organisational change varies in its responsiveness. However, these pressures are not mutually exclusive but co-exist to reflect the varied nature of organisational change. They can, and generally do, operate simultaneously. This is also reflected in the three types of legitimacy outcomes (pragmatic, cognitive, and moral) being pursued. The following sections consider how corporate codes of ethics are being employed as the means to achieve legitimacy through the processes/pillars of institutional isomorphic change.

4.4.3.1 Pragmatic legitimacy by coercive isomorphism

Coercive pressures are formal and informal pressures exerted either by external constituents upon which the organisations are dependent or by cultural expectations in the societal environment within which the organisations must operate (Nicholson, 1994; Shepard et al., 1997). In the business environment, these pressures tend to come from powerful constituencies external to the corporation such as government, regulatory agencies, business leaders, the media, and other stakeholders having a direct impact on the corporation. The pressures may emerge in the form of force, persuasion, or invitations to join in collusion (DiMaggio & Powell, 1983). Coercive isomorphism occurs when corporations consciously adopt new systems or practices in response to the demands of powerful constituents to ensure resources, economic efficiency, and reputational effect.

Since the emergence of capitalism, business pursuits have inclined to value extrinsic rewards more than intrinsic ones (Moore, 2012; Schnebel & Bienert, 2004). In recent years, an increasing number of managers were found to have succumbed to unethical and/or illegal behaviour. This has led to the question whether the neo-classical economic

model, in its good intent to reinforce rationality to achieve success, has also undermined traditional values and institutions by allowing pecuniary advantages to take charge. As a result of the spectacular corporate failures and the abuse of managerial power, there have been strong pressures to promote business ethics and corporate governance (Rossouw, 2005). In light of the growing influence of corporations in the global economy, advocates of business ethics argue that it can have a role in the economy (domestic, regional, and even global levels) to avoid, stop, or slow the deterioration process of capitalism and bring about a balance between “self-interest” and “common good” (as discussed in Chapter 2).

The outbreak of high-profile scandals has triggered a “sea change” of new pressures for corporations to behave ethically. This shows that the survival of modern corporations rests not only on their “economic power” but also on their overall contributions to wider society. Broader political, economic, and social interdependencies (as mentioned in Chapter 3) mean that corporate actions have significant impact on their constituents. Corporate failures can have major economic (and emotional) impact on the organisations themselves and their immediate constituents, but more importantly, they can have huge flow-on effects on the broader society (Ball, 2009; Castelló & Lozano, 2011).

Public responses to corporate failings tended to frame them as a general failure of governance and ethics rather than as firm-specific problems (Arjoon, 2005; Holder-Webb & Cohen, 2012). Intense public pressure for enactment and enforcement of regulatory laws pertaining to ethical issues has seen government involvement in business ethics reforms. For instance, in the U.S., the Securities and Exchange Commission (SEC) directives, the FCPA, the FSGO, and the SOX are some of the more prominent examples of government pressures on companies to develop ethics codes. Specifically, the FCPA considers the use of bribery tactics highly unethical and requires large, publicly held corporations to maintain an adequate system of accounting internal control incorporating ethical rules of conduct. The FSGO adopts a “carrot-and-stick” approach to encourage the development of organisational ethical compliance programmes among U.S. companies (Harvard Law Review, 2003; Rockness & Rockness, 2005; Weaver et al., 1999a). It provides an incentive for companies to develop ethics programmes by allowing penalties to be reduced. More recently, the SOX, enacted to combat corporate deceit that had given rise to enormous corporate scandals and financial breakdowns, aims

at strengthening corporate governance measures such as transparency, integrity, and accountability to restore investor confidence (Harvard Law Review, 2003). The enactment of the SOX represents a seismic shift with government intervention requiring publicly traded corporations to provide a corporate code of ethics (or to explain why they would not provide one).³⁶ Section 406 of SOX has created both coercive pressures (arising from the passage of the regulation) and mimetic pressures (as codes are required, but significant uncertainty exists as to what they should contain and how much they should constrain behaviour).

Other regulatory bodies having an “enforcer role” in business affairs also require their members to uphold ethical standards. For instance, the SEC, the New York Stock Exchange (NYSE), the Financial Times Stock Exchange (FTSE), Dow Jones, and the National Association of Securities Dealers Automated Quotations (NASDAQ) have stringent rules relating to ethics. In particular, a key element of the listing rules of the major stock exchanges is the production of a corporate governance statement where a corporate code of ethics is required. This voluntary self-regulation feature has become the norm of listing to ensure the standards of good corporate governance where investor funds are concerned. At the international level, there are codes of ethics to bring justice and fairness to international business affairs. These include the Caux Round Table’s Principles for Business (1996), Global Sullivan Principles (1999), the OECD Codes of Corporate Conduct (2001), and United Nation’s Global Compact with Business (2000). The push for codes of ethics in the public arena is intended to have a positive effect on business with the view to increasing/restoring public trust in corporate operations.

There are other stakeholders – consumers, suppliers, special interest groups, the media, and members of society at large – wielding their influence on companies to pursue ethical causes. The more powerful groups are able to generate money for lobbying, enforcement, and political action (Shepard et al., 1997). The smaller and less powerful groups form coalitions to achieve their goals through concerted effort. The impact of external stakeholder groups on corporations is both direct and indirect. Direct effects

³⁶ The *Sarbanes-Oxley Act 2002* does not require a code of ethics, but a company is required to disclose in its annual report whether it has a code of ethics. The Act defines a corporate code of ethics as a codification of standards that is reasonably necessary to deter wrongdoing and to: (1) promote honest and ethical behaviour; (2) avoid conflicts of interest; (3) provide full, fair, accurate, timely, and understandable disclosure; (4) comply with applicable governmental laws, rules and regulations; (5) report code violations; and (6) be accountable for adherence to the code (SEC, 2002).

arise from such activities as boycotts, demonstrations, lawsuits initiated against companies, and sponsored shareholder resolutions on a host of issues. Indirect effects come from stakeholders' influence on public policy in the form of regulations that affect the business community (Shepard et al., 1997).

In addition to employing political tactics, stakeholders have also made use of the media in pressing the government to exercise their coercive power in regulating corporate ethics and in compelling corporations to improve their ethical self-policing mechanisms. For instance, in the latter part of the 20th century, exposures of the social and environmental issues caused by corporate misdeeds had heralded the introduction of laws and regulations against fraud, product safety, employee health, environmental protection, and so on. Negative media reports on the ethical failings of corporations can bring forth unwarranted attention to the corporations and create detrimental effects on their reputation and survival.

Such are the “regulative pillars” (Scott, 1995, 2014) propelling corporations to pursue legitimacy and improve public perception of corporate deeds. Pragmatic legitimacy rests on the self-interested calculations of an organisation's most immediate constituencies (Suchman, 1995) such as those identified above. Because corporations are not only economically but also socially embedded in their environments, corporate actions can visibly affect the well-being of their constituencies because of political, economic, or social interdependencies. It is often a strategic or expedient move on the part of corporations and their managers to conform to the established rules and regulations as well as the prevailing social mores. In a way, they are re-prioritising their self-interests to fend off criticisms and potential litigation by taking reactive and/or proactive measures to instigate visible improvements in their ethical climate (Harvard Law Review, 2003). A common response is manifest in the production of codes of ethics, which signals to the powerful constituents that corporations are conforming to the expected social order and are poised to (re)gain their legitimacy. For the sake of pragmatism with a view to long-term survival, corporations act in a rational but also self-interested manner having calculated the costs of non-conformance and the expected value of ethical commitment (Long & Driscoll, 2008; Suchman, 1995).

As discussed above, many corporations are inclined to acquiesce to stakeholder demands since they are aware of the “social embeddedness” of the economy and the power of stakeholder activism (Cragg, 2002; Greenwood & Van Buren, 2010; Shepard et al., 1997). They realise that organisations that conform to the “norm” for their field are “recognized by regulators and the general public as being more legitimate than those that deviate from normal behaviour” (Deephouse, 1996, p. 1033). This not only shows that stakeholders have made some inroads into corporate consciousness in general and business behaviour in particular but also reflects that corporate codes of ethics have proved attractive to legislators, regulators, and other stakeholders in times of corporate crisis as a supplement to the law.

4.4.3.2 Cognitive legitimacy via mimetic processes

Mimetic process is generally portrayed as organisations’ response to uncertainty (DiMaggio & Powell, 1983). When organisations do not see a clear course of action, they tend to mimic peers (that is, those visible early adopters) that they perceive to be successful. Scott (1995) defined “cognitive pillar” as organisations’ desire to conform to conventional patterns, stating that the underlying logic of mimicry was often one of orthodoxy as organisations sought to behave in orthodox ways, in ways that would not be perceived as “standing out” or be noticed as different. Furthermore, organisations wanted to imitate those whom they regarded as superior and as more successful. The early adopters therefore provide an “action template” for others to follow. Thus, mimetic isomorphism involves mimicry and herd behaviour (that is, imitation without planned direction) (Scott, 1995).

According to DiMaggio and Powell (1983, p. 147), “uncertainty and constraint often lead, in the aggregate, to homogeneity in structure, culture and output.” Environmental uncertainty creates an ideal climate for mimetic behaviour. A business environment that is perceived to be suffering from a legitimacy crisis due to corporate scandals, business misdemeanour, and an erosion of public trust provides fertile grounds for mimicry. Corporations, as business enterprises, tend to be pragmatic. They are astute in recognising the difficulties associated with changing public expectations and generally opt for the easier route by taking advantage of the availability of generally accepted rules and guiding principles or practices as their model. This helps them to “identify their present output, values and method of operation with institutions, values or outputs which

are strongly believed to be legitimate” (Dowling & Pfeffer, 1975, p. 127). Modelling after an acceptable template also protects the organisation from having its conduct questioned. Importantly, the organisation becomes legitimate, and is therefore able to use its legitimacy to strengthen its social support and secure its survival (Meyer & Rowan, 1977).

In the U.S., the SEC, the FSGO, and the SOX have created the coercive pressures (arising from the passage of law and regulation with the focus on cultural expectations) for code adoption and mimetic pressures. However, none of these regulations “dictate” the content, language, procedures, or other details of an acceptable code. Instead, they merely encourage each corporation to determine the specifics of its code (Harvard Law Review, 2003). Significant uncertainty thus arose as to what corporations should include in their codes and how they should constrain behaviour. The same applies to the listing requirements of the stock exchanges. The fact that corporate codes of ethics share many common features would suggest mimicry at work. Undoubtedly, exogenous pressures to conform to governmental and public expectations are a major incentive for corporations to produce codes of ethics. With the presence of visible early adopters providing an action template (cognitive map) for others to follow, some firms, particularly small ones, chose to have similar codes of ethics with other firms so that they would not be seen as outliers. Since small firms had fewer resources and less political power, they would most likely engage in voluntary, self-conscious mimicry of the language and content of the codes of larger and more successful firms (Forster, Loughran, & McDonald, 2009). Whether the codes are exact replicas or not, it must be accepted that companies do have their unique traits and structures reflected in the contexts of their codes.

Cognitive legitimacy may involve either affirmative backing of an organisation or mere acceptance of the organisation as necessary or inevitable based on some taken-for-granted cultural norm (active versus passive support) (Suchman, 1995). It may be a deliberate act of expediency taken to benefit internal stakeholders and impress external stakeholders to establish a corporate vision, brand, image, or reputation. To provide some order in a chaotic cognitive environment, it must possess two attributes – “comprehensibility” and “taken-for-grantedness” (Suchman, 1995). The former helps to better understand the collective beliefs about the institutional environment and the causal relations guiding social interaction. The latter applies a more sedate sense of cognitive

coherence to manage social disorder by transforming it into “a set of intersubjective ‘givens’ that submerge the possibility of dissent” (Suchman, 1995, p. 583). Thus, cognitive legitimacy is attained through the adoption of organisational structures (such as a code of ethics), processes, and behaviours that occur in ways that appear orthodox, comprehensible, logical, and taken-for-granted. This type of legitimacy is achieved through cultural alignment and imitation that is deemed to be legitimate, without any innovative efforts by the “imitating” organisation.

The presence of generally accepted rules and guiding principles or of practices with widespread support reduces ambiguity and provides a set of acceptable solutions that can be used in shaping corporate behaviour. To minimise relations of power and coercion from powerful constituents, corporations would seem to be in favour of a cognitive approach to perception and action by producing codes of ethics and/or using extant ethics codes as the pattern to structure their own practices in the absence of explicit normative prescriptions (Mizruchi & Fein, 1999). However, this type of isomorphism can also be driven by the kind of social-constructionist role that March (1981) called “obligatory action.” Human nature is such that once enough social actors do something in a certain way, that particular course of action becomes taken-for-granted or institutionalised, and thereafter, other social actors will undertake that course of action without thinking (hence the herd behaviour). This could be used to explain the prevalence and commonality of corporate codes of ethics (Forster et al., 2009). If enough of one type of social actor adopts a course of action, then other, similar social actors will imitate them. Once a “logic of appropriateness” (March, 1994) has been cultivated, efficiency considerations and goal attainment are of much less importance. A sense of simply “doing something” or becoming identified with organisations perceived as responsive and successful is more important. This is particularly attractive when significant others in the institutional environment have little else upon which to judge an organisation’s actions. Early adopters, motivated by technical-rational criteria, are more likely to customise practices to suit their unique needs and capabilities than late adopters.

Since codes of ethics are highly visible public documents, their presence are a signal that the companies producing codes are social conformists responding to institutional pressures. Public recognition gives rise to cognitive legitimacy, which is attained through mimetic processes driven by taken-for-granted policy rules. These rules may be derived

from the large social structures operating as a repository or “carrier” of normative behaviour (Scott, 1995), such as the model provided by the early adopters. Mimetic disclosure behaviour thus becomes the enactment of “institutional scripts” rather than a matter of internally grounded and autonomous choice, motivation, and purpose (Scott, 1995). However, uncertainty-induced mimetic processes normally flourish best in the absence of coercive or normative influences as these tend to heighten the importance of specific intrinsic relationships with potentially organisation specific consequences (Mizruchi & Fein, 1999)

4.4.3.3 Normative legitimacy through normative processes

Normative isomorphic organisational change, as depicted by DiMaggio and Powell (1983), results from professionalisation or structuration achieved through a process of socialisation – education, training and interaction – within the professional or organisational field. Emphasis is placed on a “normative pillar” (Scott, 1995) supported by normative rules created for organisational practices. The process of socialisation acts as an isomorphic force with the normative rules introducing “a prescriptive, evaluative, and obligatory dimension into social life” (Scott, 1995, p. 37) to maintain a moral social order. Included in these rules are values, norms, roles, and beliefs that reflect a mix of exogenous and endogenous forces as discussed in Section 4.3. Some normative rules are there to constrain social behaviour while others are to empower and enable social actions. Together, they confer rights, responsibilities, privileges, duties, and mandates on members of the organisation (Scott, 1995). The focus of normative pressures is to ensure, through a process of internalisation, that members of organisations are aware of their respective roles in a social situation and to behave appropriately in accordance with the specified standards of conduct. The emphasis is on social obligation, which means that members conform to rules for the common good, not for self-interest or expediency.

Moral legitimacy reflects a positive normative evaluation of the organisation and its activities. Unlike pragmatic legitimacy, moral legitimacy is “socio-tropic,” that is, resting not on judgements about whether a given activity benefits the evaluator, but rather on judgments about whether an activity is “the right thing to do” (Suchman, 1995). While *pragmatic* legitimacy requires legitimate organisations to conform to rules, legal, or quasi-legal, and the *cognitive* view stresses the legitimacy on adopting a common frame of reference, the *normative* conception emphasises a deeper, moral base for assessing

legitimacy. Normative rules are a set of beliefs that are to be internalised to promote not only organisational but also societal welfare. They possess both intrinsic and extrinsic values. This “prosocial logic” is fundamentally different from the narrow economic self-interest. Moral legitimacy is granted to an organisation when its structural, procedural, and behavioural characteristics conform to social values and obligations, that is, when members conform not because it serves their individual interests but because they are obligated to do so (Scott, 1995).

Public outcry over corporate misdemeanour has exposed the dangers of the loss of traditional values. The erosion of business ethics and the consequent loss of public trust have undermined not only the *bourgeois* values and institutions, but also the legitimacy of capitalism. Without a fair marketplace, the pursuit of economic success is meaningless. It was in the wake of framing this legitimacy crisis of ethical failings that a movement promoting ethical behaviour began to take hold and gained momentum. The business ethics movement has helped to raise an increased awareness of ethical issues through the combined efforts of business education, corporate organisational training, and media coverage. These developments have most likely fostered the generation of normative isomorphic pressures that led to the prevalence of corporate codes of ethics.

Undoubtedly, there are different levels of moral legitimacy. At the higher level are companies that take the altruistic stance (that is, social contract³⁷ perspective) in producing a code of ethics for their own as well as the public good. At the lower level are companies that adopt codes to guide business practices for pragmatic reasons. The crux of a corporate code is to serve as a normative reference for all members of the organisation. Through the socialisation process, some sort of “social patterning” could be used to shape individual beliefs and behaviour of corporate members so that they are able to show ethical consensus on what ought to be in their business dealings. This is likely to invoke a sense of group solidarity and common purpose in terms of the organisation’s ethical values, rules, and norms. It can also enhance corporate reputation and uphold public trust by communicating to outsiders the norms that regulate corporate behaviour.

³⁷ Legitimacy theory has its roots in the idea of a social contract between the corporation and society. This concept was first raised in Chapter 2 (Section 2.2.2) when relating to the commonality of the philosophical views of Hobbes and Locke. A company’s survival and growth depend on its ability to deliver desirable ends, that is, to distribute economic, social, and political benefits to the groups from which it derives its power. As legitimacy is based on perception, therefore response by managers must be accompanied by disclosure (See Magness, 2006; and Shocker & Sethi, 1973).

Particularly in times of adversity, corporations will adopt codes of ethics to demonstrate their intentions for future good and ethical behaviour and act in ways that will preserve or restore their legitimacy (Ashforth & Gibbs, 1990; Weaver et al., 1999b). The more liberal and pragmatic managers are well aware that business cannot exist without society and that society cannot go forward without business (Joyner & Payne, 2002) in the increasingly interdependent and complex global marketplace. The increasing demand for corporate accountability means that businesses are required to participate in society in an ethically symbiotic way. It is increasingly accepted that corporations owe their existence to a partnership (what might be called a social contract) between shareholders, other stakeholders and governments. It is a partnership that is itself built on the shared though implicit understanding that corporations have an unconditional obligation both to obey the law and to treat their stakeholders ethically while generating wealth and other benefits (Cragg, 2002; Dunfee & Donaldson, 1995). The theory of social contract accounts for relationships between ethical conduct and effective management in serving the interests of all stakeholders who enjoy a normative status, and not merely instrumental status.

In a normative process of change, early adopters of corporate codes of ethics are driven by a desire to improve performance due to coercive pressures, but as the practice spreads, a threshold is reached beyond which adoption provides organisations with legitimacy rather than improved performance (DiMaggio & Powell, 1983). There are two issues implicit in this argument. First, the fact that norms change over time may render the characteristics and practices of providing accountability and legitimacy to be different before and after the diffusion of the practice. Second, organisations are evaluated not with an absolute standard but in relative terms by comparisons with organisations in the same organisational field (Amburgey & Dacin, 1994). Late adopters, experiencing normative pressure to adopt legitimate practices, appear more likely to mimic the normative model or definition of corporate codes implemented in other companies. In this way, external social pressures contribute to isomorphism in code adoption.

While institutional theorists view the emergence of organisational control practices as a process of relatively passive adaptation by de-emphasising the role of intentional and rational decision-making (Scott, 1995; Scott & Christensen, 1995), more recent research shows that organisations may, under certain circumstances, proactively influence their

relations to different constituencies (Shepard et al., 1997). Brignall and Modell (2000) complemented the institutional perspective with a view of management as an intentional and proactive agent. Although constraints and enablers of a company's ability to act ethically tend to emanate from the external environment, a company's willingness to engage in ethical conduct is (technically) determined by the "effective bundling" of internal resources and the commitment of those resources to social ends (De Holan & Phillips, 2002; Sama, 2006). For example, external expectations can be uncertain or in conflict, creating opportunities for managerial discretion. Organisational actions reflect both the proactive exercise of management discretion and reactions to actual or perceived environmental expectations (Weaver et al., 1999a). This managerial choice, despite the general perception as passive adaptation, also highlights the active role of management. Codes are used, reactively and/or proactively, as a deterrent to provide greater self-policing (Harvard Law Review, 2003) as well as for corporate reputation and brand management (Mitnick & Mahon, 2007; Wright & Rwabizambuga, 2006). The prevalence of ethics code adoption reflects not only the use of isomorphic content to signal compliance with the regulatory mandate but also a manifestation of the rationality of the "economic man," which is basically a logical reaction to survive. This rational act complements the institutional explanation of corporation's conformity to social and cultural norms to attain moral legitimacy through "social modelling."

4.4.4 Ceremonial structures

Institutionalised environments require that organisations draw upon law, customs, and beliefs to sustain their social position within the organisational field. Since organisations' claim to legitimacy depends very much on the acceptance of external constituents imposing the institutional rules, they are prone to construct "stories" about their actions that correspond to socially prescribed dictates about what the focal organisations should do. It is not necessary for these stories to have any connection to what the organisations actually do as they are used as forms of symbolic reassurance to appease potentially influential constituents (Meyer & Rowan, 1977; Mizruchi & Fein, 1999). Creation of programmes or initiation of action plans in congruent with prevailing constituent expectations would suggest to these constituents that organisations have implemented sound self-policing systems which will lead to predictable and desirable results. Over time, through the process of institutional isomorphism, these stories/practices begin to function as powerful myths with many organisations adopting them ceremonially (Meyer

& Rowan, 1977). Arguably, this is the concept of “loose coupling” describing organisations’ ceremonial posturing in the pursuit of legitimacy. Social conformity is therefore a symbolic gesture to conform and not what is actually accomplished. In most cases, such take-it-for-granted actions create a disconnection between the promise and the realised results (of the promise).

In theory, organisational success and survival should depend on the efficient coordination and control of the operating activities. However, in practice, success and survival may depend on factors other than efficient coordination and control. Some organisations survive and prosper due to efficient management of the multifarious environmental demands while others depend more on the ceremonial demands of highly institutionalised environments (Meyer & Rowan, 1977). As legitimacy is derived from perception, it has always been based on social judgement and can be problematic. Since social values and expectations are social constructs, they can be contradictory and ambiguous as a result of “the laws and traditions that ratify values, the editorializing of the media, the pressure campaigns of interest groups” (Ashforth & Gibbs, 1990, p. 177), and the cultural shifts at different points in time (Preston et al., 1995). Undoubtedly, the process of institutionalisation has established institutionalised practices that embellish the commitment of the organisation, the power coalitions, the governance context of the organisational field, and the stability of the social environment. The three isomorphic pressures are also consistent with the ceremonial and ritualistic arguments advanced by Meyer and Rowan (1977). In response to such pressures, organisations’ actions to pursue legitimacy, in the view of Ashforth and Gibbs (1990), are the “double-edge of organisational legitimation” since they engage in such a pursuit through a variety of substantive and symbolic practices.

Substantive legitimacy is a demonstration of staying abreast of societal changes for the sake of survival by seeking legitimacy through conforming to the values, norms, and expectations of constituents. It involves a genuine sense of commitment in implementing real material change in organisational goals, structures, and processes or socially institutionalised practices (Meyer & Rowan, 1977). It also involves the adoption of powerful, pervasive, and subtle myths (ceremonial structures) as signals of organisational commitment to fulfil constituents’ role expectations. *Symbolic legitimacy*, on the other hand, depicts a visual or symbolic conformity of social values and expectations without

actually changing the organisational practices; it only focuses on superficial impressions. Organisations may advocate strong conformity to socially acceptable goals while actually pursuing less acceptable ones. The façade of conformity is but a means of securing respectability and the licence to propagate organisational beliefs and values (Ashforth & Gibbs, 1990).

The legitimacy crisis ignited by the erosion of business ethics and the loss of public trust have seen corporate ethical codes being widely adopted and used as safeguard mechanisms to “re-legitimate the business world” (Galavielle, 2004). Many businesses are keen to “jump” onto the legitimacy bandwagon as a public manifestation of their ethical commitment. The increasing use of ethics-oriented rhetoric in the public arena (Holden-Webb & Cohen, 2012), ostensibly as a public espousal of values that are considered necessary to be seen as a legitimate leader, has often been construed as symbolic and rhetorical framing for public image management. The creation of “new visibilities and altered myths” through the adoption of codes signifies the attainment of power and privilege with conformity. The accrued benefits of public acceptance are transient if organisations do not establish procedures for monitoring compliance or imposing sanctions and maintain constant vigilance of the public sentiments of the influential constituents in the diverse business environment. Having a code to regulate corporate ethical behaviour is one thing; having a code that bears little relevance to what actually takes place in the organisation is another. The contradiction “lies in the notion that codes of ethics can serve to legitimize the activities of an organization while being simultaneously treated with insincerity by the organizations that adopt them” (Long & Driscoll, 2008, p. 173). This is a serious shortcoming of compliance-based deterrents and isomorphic forces. It suggests a “window-dressing” response that offers legitimacy with the market and the possibility of reduced exposure to legal liability without actually deterring wrong-doing (Long & Driscoll, 2008; see also Harvard Law Review, 2003; Holden-Webb & Cohen, 2012).

Some observations can be made in regard to the issue of “form” and “substance.” First, the incentive of regulative legitimacy has seen a prevalence of code adoption. However, since the laws and quasi-regulations do not mandate any specific content requirement, the coercive pressures leading to the provision of codes may also indirectly influence the content of the codes. Similarly, mimetic forces arising from uncertainty over code

content and implementation may also lead to convergence both in content and in the language that is used to convey the content. Apparently, the regulators’ preference is for compliance with the spirit, rather than with the letter, of the rule. In light of the commonality of form and content using certain cognitive templates, the majority of corporate codes appear to have been drafted for form rather than for substance (Holder-Webb & Cohen, 2012). Second, code adoption is done in a strategic manner to attain legitimacy simply to satisfy the self-interested wants of the organisation. Even though the organisation has attained cognitive legitimacy by adopting a code of ethics, no sincere effort may be apparent to instil ethics into organisational decision making and behaviour. Code existence could *prima facie* lay claim to moral legitimacy; in effect, without genuine ethical commitment, it is a move away from the moral foundation of ethics. In a nutshell, it is sheer ceremonial conformity to provide the appearance of action without the substance when adopting certain highly visible and salient practices consistent with social expectations while leaving the essential machinery of the organisation intact.

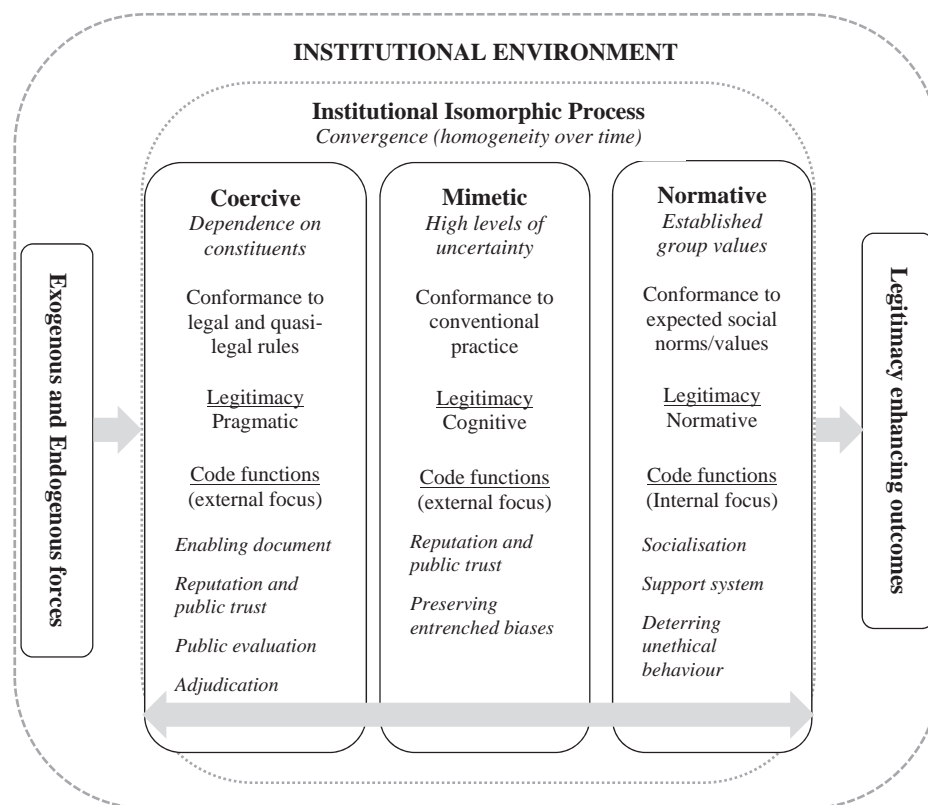


Figure 4.2 The Institutionalisation of Corporate Codes of Ethics

Figure 4.2 provides a summary of the institutionalisation process of corporate codes of ethics. The prevalence of corporate codes can be explained through this process as it

helps to describe the steps and activities involved in organisational change. The figure depicts the institutionalisation of the corporate code in two conceptualisations: (1) process, and (2) outcome.

Process is represented by institutional isomorphism which comprises three interrelated processes – coercive, mimetic, and normative. The three processes may not develop sequentially but generally operate simultaneously as illustrated by the two-sided arrow in the diagram. Institutional isomorphism began to take shape when exogenous and endogenous forces in the institutional environment coerced and/or persuaded the corporations to adopt corporate codes of ethics as a result of the exogenous shocks that had created havoc in that environment. The pressures were so intense that corporations were compelled to take actions to (re)legitimate themselves to improve their business ethics stance so as to restore public trust. Since corporations belonged to the same institutional environment (organisational field), they all faced the same set of environmental conditions and demands. As a result, their efforts to conform saw them resembling each other in many ways, that is, they became homogenised. The *outcome* dimension represents the result of the institutionalisation process. It is where the outcomes of legitimacy are being assessed. The legitimacy outcomes of corporations would reflect the “rationality” or intent of those in charge of the organisations. The legitimacy attained may be strategic, cognitive, or moral, or a combination of the three. In time, social judgement will determine whether these legitimacy outcomes are “substantive” or “symbolic” in nature.

In summary, institutional theory provides convincing explanations for the widespread adoption of corporate codes of ethics (Chua & Rahman, 2011). In particular, its ideas of isomorphism and legitimation help to explain how codes of ethics can serve to legitimise the activities of organisation. In the current business environment, corporate codes of ethics have been institutionalised and become one of the established organisational structures. The institutionalisation process itself and the state of organisational legitimacy provide a better understanding of the politics and ceremony that pervade much organisational life (Mizruchi & Fein, 1999).

4.5 CHAPTER SUMMARY

As the *meso*-contextual analysis of corporate code adoption, this chapter has provided a depiction of the institutional environment in which corporations operate. It has employed institutional theory to explain the motivations of using corporate codes of ethics as a legitimacy-enhancing mechanism. First, it is found that while code adoption has been treated as a legitimacy-preserving response to exogenous demands of powerful societal institutions for extrinsic incentives, it has somehow neglected the endogenous forces such as the role of management particularly in their sense of ethical propriety (which may be infused with intrinsic values) in making commitment to ethical responsibility (see Weaver et al., 1999b). Second, corporations have to gain legitimacy for their survival in the increasingly complex environment. To attain this goal, many of them have engaged in some sort of legitimacy manipulation. In other words, they use both substantive and symbolic management to acquire legitimacy. While both types can be considered ceremonial structures, there is a difference between them. Substantive management generates meaningful changes in ethical commitments that are integrated into the regular affairs of the business while symbolic management involves making “window dressing” changes that “appear consistent with social values and expectations” (Ashforth & Gibbs, 1990, p. 180). Third, explicit external forces in the form of regulatory pressures are more likely to stimulate ritualistic responses than to induce substantive change. With the legal and regulatory elements taking a predominant place in corporate codes of ethics, it is not surprising that corporations tend to follow the symbolic legitimacy route by providing ritualistic responses and engaging in box-ticking behaviour (Holder-Webb & Cohen, 2012; Long & Driscoll, 2008; Weaver et al., 1999b). Corporate code adoption is perceived as compliant disclosure. It shows compliance with the letter rather than the spirit.

Corporations have lost their legitimacy over the past few decades in the face of a widespread institutional breakdown of trust and self-policing in business (Khurana & Nohria, 2008). Both exogenous and endogenous forces have compelled them to self-reflect about their predicament. Recognising that a liberal, capitalistic-oriented economy can function only if the participants and the responsible players follow a certain set of ethics (Schnebel & Bienert, 2004), they are keen to embrace the role of “institutional custodians” for all concerned. Codes of ethics are one of the means they choose to

generate some meaningful changes into their operations to restore public trust and regain legitimacy for long-term survival.

This chapter has employed the basic tenets of institutional theory to explain that corporations' survival require them to conform to social norms of acceptable behaviour. They must engage in some form of institutional isomorphism by displaying specific policies and practices as symbols to both external and internal constituents to demonstrate conformance so as to gain support from these groups. The adoption of corporate codes of ethics signals their conformance to societal ethical expectations while at the same time manifests their response to threats to legitimacy with institutional change and communication to (re)build legitimacy.

To be effective in restoring legitimacy for long-term survival, it is important that the typical code of corporate ethics be a hybrid combining two key variables: pragmatism and idealism (Arvidsson, 2009; Fort, 2007). *Pragmatism* is compliance-based with the focus on aligning societal needs (for example, mitigating the causes of corporate failures) with corporate practices (for example, focusing the language and content of corporate codes on such resolutions) to show genuine compliance with the spirit rather than merely ticking the box. *Idealism* is value-based with the focus on management's positive sense of ethical propensity. Managers should be responsible in taking ethical considerations into their everyday decisions and actions. After all, organisational legitimacy and survival do not depend solely on financial performance but also on the extent of corporate values and commitment to the common good.

The next chapter embarks on the first stage of a *micro*-text analysis of the discourse of corporate codes of ethics. Such a textual analysis of the codes aims to ascertain the specific features of the code rhetoric, that is, the genre of text, the context, and the target audiences. It discusses the implications of the institutional environment on corporations' pursuit of legitimacy using a particular code discourse. It also explains why rhetorical analysis was employed in this part of discourse analysis.

CHAPTER 5

RHETORICAL ANALYSIS OF CORPORATE CODES OF ETHICS

5.1 INTRODUCTION

The previous three chapters have provided the *macro* and *meso* contexts of the discourse of corporate codes of ethics. This chapter begins the two-part *micro* analysis of the text of corporate codes. In particular, Chapter 4 has explored the reasons for code adoption. It has highlighted corporations' attempt to restore trust and (re)gain legitimacy through the adoption of corporate codes of ethics. It uses an institutional perspective to explain the phenomenon of isomorphic changes corporations had undergone in response to a mixture of external and internal institutional pressures. Ostensibly, the adoption of codes of ethics signals corporate commitment to moral principles and standards as it lays the groundwork of an isomorphic process to corporate legitimacy in the eyes of stakeholders. Suchman (1995) pointed out that (a) three variations of organisational legitimacy – pragmatic, cognitive, and moral – co-existed in most real-world settings, sometimes reinforcing each other and occasionally conflicting with each other, and (b) together, they were the normative and cognitive forces that “constrain, construct, and empower organizational actors” (p. 571).

As mentioned in Chapters 2 and 4, both exogenous and endogenous pressures have driven the business ethics movement that has set off a trend of corporate code adoption. The institutionalisation of formal corporate codes of ethics in the modern economies (that is, a growing trend) has also stimulated an increased interest from researchers around the world in business ethics (Kaptein, 2011; Singh, 2011; Winkler, 2011). There are two schools of thought about such a trend. One school is sceptical of the increase in corporate codes and tend to dismiss this “ethical homogenisation” as meaningless rhetoric apart from a symbolic gesture of ethical commitment (ethical symbolism) (for example, Ashforth & Gibbs, 1990; Meyer & Rowan, 1977; Scott, 2001; and Suchman, 1995). The other school recognises some value in such disclosures and inclines to view the corporations producing codes and similar statements as rhetorical strategies to show their ethical commitment to issues beyond financial matters (see Fairfax, 2007). Based on findings of social psychology research on corporate rhetoric, Fairfax (2007) argued that a corporation's own words or rhetoric might be useful not only in communicating its commitment to stakeholders' interest and corporate social responsibilities but also in

tackling its behavioural problems by reinforcing the internal discipline and protecting company assets. A close examination of the language of codes may help to explain whether corporate rhetoric has a greater connection to corporate ideology and behaviour than most would presume. Many researchers have accepted that corporate rhetoric on responsibility can be used strategically to increase the likelihood that corporations will engage in behaviour consistent with that rhetoric. Following this view, the current study concurs that the behavioural significance of corporate rhetoric may offer not only a plausible explanation to the problem of corporate irresponsibility but also an insight into the instrumental, relational, and moral motives of management in addressing issues to restore and/or maintain public trust.

This chapter therefore builds on the conceptions of previous chapters in light of the disclosure of corporate codes of ethics: the evolutionary nature of business ethics principles (Chapter 2), the need for corporations to build trust in the ever-changing modern economy (Chapter 3), and the pursuit of corporate legitimacy through institutional isomorphism of corporate code adoption (Chapter 4). It examines how code rhetoric, that is, the language employed in the codes of ethics helps to signal corporate ethical commitment in the legitimating process. Such an analysis also addresses the question of how the corporations use linguistic elements (for example, syntax and semantics³⁸) of the codes to shape their reality.³⁹ Since corporate codes are documents that are purposely produced for both internal and external stakeholders (Winkler, 2011), they are embedded in specific contexts (that is, a certain kind of organisation with its specific culture and history, a specific industrial sector, and the wider context of society). Therefore it is believed that an examination of code language can contribute to the discussion of the relevance of code rhetoric (text/language) in promoting institutional change by shedding some light on the relations between the corporations and the social entities (institutional units, fields, and pressures) that they have to contend with.

The rhetorical analysis method (functional approach to discourse analysis) is used in this

³⁸ Syntax and semantics are linguistic terms used in the study of language: the former on the grammatical rules governing relations between items of language while the latter on the meaning of words (text) (Halliday, 1978). Recent developments in linguistics show that the structure of sentences is so complex that, to have a full understanding of the meaning of a particular language, it is necessary to study not only the words and word-order but also the syntactic structure of sentences to comprehend the semantic relations (Fairclough, 2003).

³⁹ Management intent is difficult to ascertain; however, the sceptics (cynics) would seem to treat this as window-dressing gestures as mentioned earlier.

study to examine the codes of ethics⁴⁰ of the global top 100 companies by market capitalisation compiled by PricewaterhouseCoopers (PwC) in March 2014. The focus is on the art of persuasive language employed by corporations to garner public support by convincing their stakeholders of their ethical stance and their corporate responsibility in contributing to the social order. The analysis employs three rhetorical concepts – *logos*, *pathos*, and *ethos* – to explain the process of language use to help interpret corporations’ persuasive appeals to legitimacy. To strengthen the discussion of persuasion, the analysis also delves into the five rhetorical canons – *inventio* (invention and creation of information), *dispositio* (arrangement), *elocution* (style), *memoria* (memory), and *pronuntiatio* (delivery/presentation) to describe some of the actions of corporations (that is, rhetors) from initial planning stage to final delivery. The three functions of language as espoused by Halliday and Hasan (1976) – “the ideational, the interpersonal, and the textual function of discourse” – form the analytical framework for this rhetorical discussion, which aims at providing both a textual and a contextual perspective of the codes. Textual analysis helps to interpret the underlying motives of code adoption through a critical reading of the codes; however, it is by no means complete as knowing where the words, ideas, and organisation of text come from can tell a much more complex and revealing “story.” A corporate code of ethics is not merely a text; it involves other variables such as the participants (preparers and audience), the circumstances/context, and the social/institutional structures that have an influence on how the preparers word the text of the code, and how the audience interpret the text of the code. Figure 5.1 below depicts the schema of this chapter.

The chapter is structured as follows. The next section briefly re-examines the institutional perspective first to establish a link between institutional change and legitimacy and then between legitimacy and rhetoric. Section three reviews the rhetoric of corporate codes of ethics as the basis of two key propositions and their associate propositions. Section four justifies the choice of rhetorical analysis as the method for this segment of the research. Section five describes the research design in terms of the process of sampling, the construction of the research instrument, and the framework of data analysis. The last section summarises the chapter and previews the next chapter.

⁴⁰ These global companies have used different titles for their codes, for example, Code of Ethics, Code of Conduct, Code of Conduct and Ethics, Business Conduct Guidelines, Statement of Ethics, and a variety of others. This thesis categorically refers them as Code of Ethics. As such, the terms “code of ethics,” “code of conduct,” and simply “corporate code” are used interchangeably.

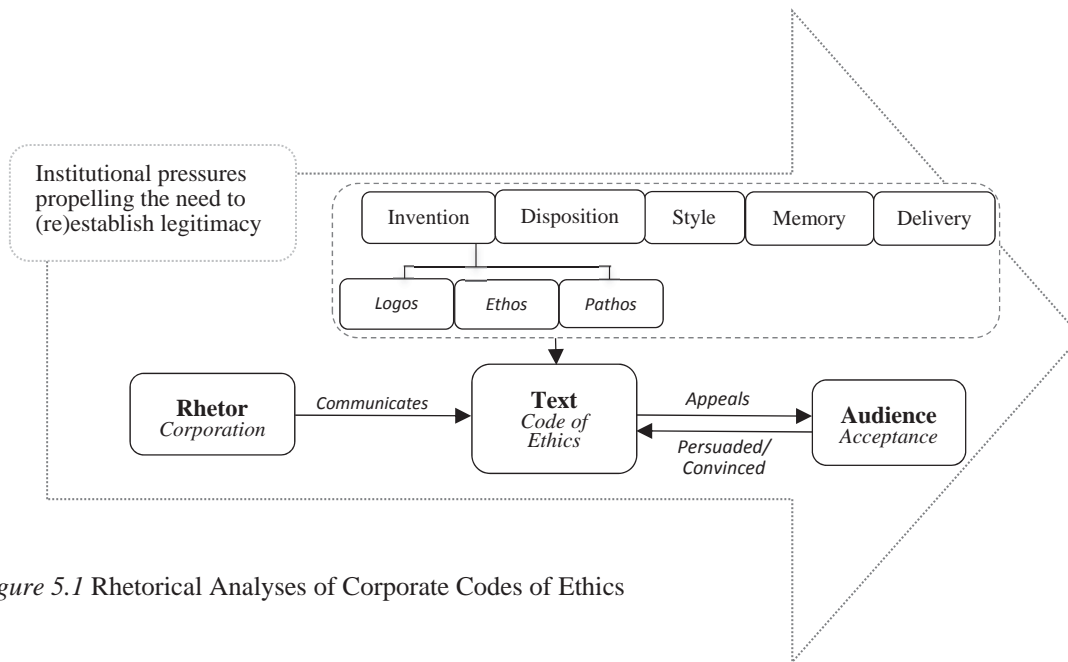


Figure 5.1 Rhetorical Analyses of Corporate Codes of Ethics

5.2 INSTITUTIONAL CHANGE, LEGITIMACY, AND RHETORIC

It is obvious from the discussion in Chapter 4 that institutional theorists have provided a convincing explanation about the relationship between institutional change and organisational legitimacy. This section extends the theme further by including some discussion about the role of corporate rhetoric in the institutionalisation process.

5.2.1 Link between institutional change and legitimacy

The institutionalist view of any social system is that it is part of a broader system or “society.” The market economy, with its multi-faceted organisations and various species of capital (financial, human, and social), is inextricably bound up with the material and social welfare of the broader society. As such, it is subject to a set of institutions, norms, and rules that control the economic behaviour of those who operate in the system. Although individual systems have their specific sets of institutions and norms, they do share some common characteristics such as the mechanisms that aim at guiding and restraining the behaviour of people toward the “common good.” Institutions can therefore be viewed in a generic sense. They are sets of rules or norms “stemming from cultural norms, symbols, beliefs, and rituals” (Suchman, 1995, p. 571) that guide human actions and interactions (Argandoña, 2004; Scott & Christensen, 1995). Ideally, they provide some stability in the behaviour of both economic and social actors to ensure some constancy/regularity in social behaviour agreed to by all members of that particular system (institutional environment).

Institutions are “historical accretions of past practices and understandings” (Brown, Ainsworth & Grant, 2012, p. 299) since they resonate with an older discourse that provided moral guidance (Preston et al., 1995) – rules and moral obligations that favour conformity and stability suited to the specific time. Institutions are normally underpinned by “institutional logics,” frameworks of assumptions within which reasoning takes place to provide the principles or guidelines for action/behaviour. These institutions shape interpretations, define role identities, constrain and enable agency, and stipulate criteria for legitimacy (Scott, 2001). However, institutional logics may become misaligned or weakened over time as circumstances change, and under these conditions, institutional change may occur.

Economic progress and social change over the years have been instrumental in organisational adaptations to meet rapidly changing expectations about business and its social and moral responsibilities. The shift from an industrial to a post-industrial economy has seen the old model of the organisation being replaced by a new model with its many merits and flaws (see Table 2.1 in Chapter 2). The post-industrial era has undoubtedly resulted in substantial human progress in both economic and social terms. However, the rise of large multinational corporations over the past century has been tainted by an increase in corporate scandals and abuses leading to accusations that business, particularly big corporations, is the cause of many social ills besetting contemporary society (see discussion in previous chapters). This has raised doubts about the sustainability of capitalism (Amernic & Craig, 2013; Craig & Amernic, 2004) and prompted the need to use ethics as the means to ensure economic efficiency (Argandoña, 2004). Institutional pressures in the form of repeated calls for ethics reforms have therefore become commonplace encouraging a “deinstitutionalisation” of previously institutionalised practices and reflecting the need for corporations to (re)establish legitimacy.

Legitimacy is arguably the most important resource for contemporary business to survive (Suchman, 1995), particularly in an uncertain environment. Legitimacy is a “perception or assumption” as it represents a reaction of observers to the organisation as they see it. It is possessed objectively and yet created subjectively (Suchman, 1995, p. 574). As a socially constructed concept, legitimacy is dependent on a collective audience as it “reflects a congruence between the behaviors of the legitimated entity and the shared (or

assumedly shared) beliefs of some social group” (Suchman, 1995, p. 574). Thus, when conditions triggering institutional change (such as exogenous jolts/shocks via scandals, stakeholder pressures and the like) arise, self-enforcing behaviour will endogenously develop to respond to the situations (Greif & Laitin, 2004). Institutional logics will shift to accommodate change (whether it is out of the self-interest of actors, or a genuine concern for the common good, or a combination of the two). “Deinstitutionalisation” takes place through the abandonment of previously institutionalised practices. The shift is necessary to ensure that the institutional logics with which the practices are associated do not lose meaning and that cultural conformity is maintained. Institutional change is therefore “the result of shifts in the underlying logic by which legitimacy is assessed” (Suddaby & Greenwood, 2005, p. 35).

As such, legitimacy is “conceived as congruence between institutional actions and social values and legitimation as actions that institutions take either to signal value congruency or to change social values” (Preston et al., 1995, p. 510). Legitimation is the perceived need to gain acceptance in society, leading organisations to strive for compliance with norms, values, beliefs, and definitions (Suchman, 1995). Organisational legitimacy presents itself as the extent to which the array of established cultural accounts explains organisational existence (Scott & Meyer, 1994). In its multi-faceted forms – pragmatic, cognitive, and moral – as depicted by Suchman (1995), legitimacy not only serves as a means to stimulate collective action but also helps to reduce the scope for criticism and questioning (Meyer & Rowan, 1977; Suchman, 1995; Young, 2003). Managers use the legitimation process to make sense of their organisations’ new role in the globalised society (Castelló & Lozano, 2011; Suchman, 1995) by adopting appropriate strategies towards achieving corporate legitimacy. Institutional change occurs after some careful deliberation of the contexts by which organisational legitimacy is assessed and of the collective benefits that can be accrued in the end (Argandoña, 2004; Suddaby & Greenwood, 2005). Without legitimacy, an organisation will not be able to gain societal support and in turn, will not be able to renew its licence to operate or gain new spheres of power to grow (Castelló & Lozano, 2011).

The question is *how* corporations communicate institutional change to the broader society. In most cases, the shift in institutional logics is conducted through persuasive language, or rhetoric (Suddaby & Greenwood, 2005), where the encoded discourse is

constructed to show social conformity to cultural views in times of adversity. For instance, the mission statements, codes of ethics, or codes of conduct are the mediums used to show the boundary of behaviour to signal the adaptations/innovations taken on by the organisations. Preston et al. (1995) called such discourse “narratives of legitimation” in their evaluation of the different cultural shifts in accounting professional codes of ethics in two periods, 1917 and 1988. They observed that the U.S. accounting profession’s claim to legitimacy from the wider public domain was conducted using rhetoric embedded in the narratives (the professional codes) as legitimating devices to appeal to “contemporary conceptualizations of morality and societal culture” (Preston et al., 1995, p. 511). Ostensibly, this observation is also a fitting explanation of the prevalence of corporate codes of ethics in recent times. The next section examines in more detail the relationship between legitimacy and rhetoric.

5.2.2 Link between legitimacy and rhetoric

As mentioned earlier, legitimacy is crucial in organisational survival. Legitimacy has become one of the most critical issues for contemporary business due to the recurring financial mishaps, scandals, and clashes between many corporations and civil society (Castelló & Lozano, 2011). The frequent occurrences of legitimacy-threatening events are poignant reminders of the erosion of business ethics and the loss of public trust in corporate morality. To change public perception and receive legitimacy, an organisation needs to pursue and adopt values that are congruent with wider societal values. Only then can it have a valid claim to societal resources. With good citizenship insolubly tied to the idea of the social contract, corporations have to respond to not only exogenous pressures (such as regulatory frameworks and institutional practices) and endogenous pressures (such as employee values, intergroup conflicts, and management self-interest) but also pressures created by the cultural expectations in the societal environment within which they must operate. To this end, they must formulate strategies to maintain and coordinate their relationships with the public to deal with issues relating to dependence, threat, uncertainty, complexity, and volatility (Scott, 2003) in the institutional environment.

Many corporations have introduced new initiatives to (re)define their role in society by reconfiguring their existing institutional logics, which are the guidelines for practical action/behaviour, to facilitate institutional change. The most common strategy to (re)claim legitimacy is to use language in corporate communications to signal social

cooperation with their stakeholders. As such, the shifts in institutional logics are often “encoded in discourses, collections of interrelated texts that provide vocabularies, specify norms, establish meanings, and create relations of power/knowledge” (Brown et al., 2012, p. 299). As observed by Berger and Luckmann (1966, p. 64), “the edifice of legitimations is built upon language and uses language as its principal instrumentality.” This suggests that “a compelling and convincing explanation” is required to elucidate how “discourse renders logics of action and material practices legitimate” (Brown et al., 2012, p. 300; see also Green, Li, & Nohria, 2009; Suddaby & Greenwood, 2005). Sillince and Barker (2012) examined this language-practice relationship in their study of rituals and metaphors. They found that institutions were simultaneously linguistic-symbolic and practice-material because language and material practices co-evolved during the institutionalisation process. The value of a linguistic account is that it links together rhetorical structures and the significant meanings of a practice. The common thread is the concept of logics – the socially shared and deeply held assumptions and values that form a framework for reasoning and provide criteria for legitimacy. To combat legitimacy-threatening events, corporations constitute their new logics in language/rhetoric as a “symbolic means of inducing cooperation” (Burke, 1969, p. 43).

Institutional change is therefore “the typification of argumentative repertoires grounded in specific contexts” (Sillince & Barker, 2012, p. 9). Institutional logics are incorporated into written texts as rhetorical strategies through the skilled use of persuasive language. Actors (such as managers) use rhetoric to “shape, justify, rationalize and seek to modify perceptions of what is sensible, right and good (that is, legitimate)” (Brown et al., 2012, p. 300). The discussion on language is therefore incomplete without relating to rhetoric and the role of rhetoric in altering perceptions in the legitimization process.

Rhetoric is the study that concerns human discourse. It is the art of using language as a means to persuade – to move audiences to action with arguments. It is a literary device with “wordy flourishes” (Young, 2003). However, this “wordcraft” aspect has evoked a somewhat negative connotation of rhetoric since it can detract listeners/readers from understanding reality as it “really” is (McCloskey, 1994, 1998; Selzer, 2004; Young, 2003). According to Young (2003), rhetoric is not a mode of truth nor does it provide uninhibited access to any extant reality. Instead, it is a means to persuade the intended audiences that a particular mode of inquiry is a mode of truth. In short, rhetoric is a “text

with intent” promoting a single perspective rather than presenting it “objectively” (Young, 2003, p. 623). It is concerned with argumentation and persuasion, a “discourse calculated to influence an audience toward some end” (Brown et al., 2012, p. 300). Simply put, and in line with Berger and Luckmann’s thinking, rhetoric is the instrumental use of language “to create and reinforce community values at a given present moment” (Selzer, 2004, p. 284). As such, rhetoric is a form of art used to persuade and even secure the adherence of others to particular perspectives. All texts are the result of conscious deliberation by knowledgeable agents.

Looking at rhetoric as an art of persuasion or argumentation, one must recognise that there are three key components in a rhetorical situation (see Figure 5.1): the rhetor, the text, and the audience. The *rhetor* (that is, the agent mentioned previously) is the author of the discourse who initiates the persuasion. The intention is to persuade/convince the intended audience of the viability, credibility, and plausibility of certain positions, beliefs, problems, solutions, and perspectives taken in the text. The *text* is the actual writing that provides the meanings and directions of the persuasion. The structure and organisation of this persuasive text is determined by the choice and style of language with the focus on persuading the audience to accept the proposed arguments, values, and choices for some specific contexts. For instance, it may be some sort of “sense making” in response to legitimacy-threatening incidents or it may be some forward-looking schema to forestall future problems. The *rhetor* is part of the text because his/her intent/perspective is visible in the text through the deliberate choice of certain linguistic devices. Although some texts are for a “universal audience,” in general, *audiences* are context-based and targeted by the rhetor for particular reasons, for example, for their potential values to the organisation. As such, “the arguments and values contained within the text are likely to tell us much about what the rhetor believes should persuade the reader to accept a particular viewpoint or undertake particular actions” (Young, 2003, p. 624).

Texts can be both persuasive and constitutive (Young, 2003); they can perform multiple functions to help attain legitimacy. First, they rationalise the construction of specific principles or standards as “good,” “valuable,” “appropriate,” “useful” and “correct.” Second, they shape/encourage certain beliefs and behaviours among particular audiences to act in certain ways (for example, to abide by some laws and rules). Third, they modify the convictions or disposition of specific audiences through persuasive discourse rather

than through an overt imposition of will or through constraint. Fourth, they help to silence critics by accepting their actions/new personae. Finally, they argue from authority justifying the new constructions as practical, consistent and relevant. Subsumed in the persuasion is the power of words as a major force to shape reality. Hence, studying rhetoric can help the analyst to discern the dynamics of power between authors and audiences in their respective social roles.

As carefully and deliberately crafted products, rhetoric provides an opportunity for rhetorical analysts to ascertain *why* texts are written, *what* beliefs and actions they portray, *who* the audience is, and *what* reactions they hope to generate from the audience (Bazerman & Prior, 2004; Selzer, 2004). As suggested by the discussion on texts above, words do matter, it is with words that people construct issues and problems as well as ‘‘solutions’’, and it is with words that people persuade others to accept certain viewpoints and to undertake certain actions. Since words have the power to change viewpoints and actions; by association, rhetoric is a force that can shape reality (Young, 2003) by constructing legitimacy.

This section has examined conceptually the link between institutional change, legitimacy, and rhetoric. It has explained the pivotal role played by institutional logics (framework for reason and belief) in the pursuit of legitimacy and how rhetoric or persuasive language is used as a legitimating device to articulate these logics (that is, to convince/persuade audiences to accept the change). The next section explains the way in which corporate codes of ethics is used to establish this link.

5.3 THE RHETORIC OF CORPORATE CODES OF ETHICS

Corporations are adept in managing and orchestrating their communications internally and externally. Very often, such communications aim at creating favourable corporate images among stakeholders on which the corporations depend. Annual reports, codes of ethics, letters to shareholders, newsletters, press conferences, speeches, and other utterances are some of the tools used to shape what is accepted as legitimate discourse in organisations and society. This section focuses on the corporate code of ethics to ascertain how companies communicate their ethical stance using rhetoric.

Corporate codes of ethics are official documents in which a company declares an ethical

responsibility towards various stakeholders. It includes a set of directives, norms, values, and rules specifying desirable behaviour and prescribing possible consequences in the case of misconduct. Increasingly, corporate codes are symbols used by corporations to show both internal and external constituencies their commitment to ethical practices (Kaptein et al., 2003; Kaptein, 2004; Newberg, 2005; van Zolingen & Honders, 2010).

Corporate codes are a genre of language. Each language has its own peculiarities and creates its own truths. Language is a social construct in the sense that it serves as a means to enable people to construct (that is, make sense of) their own reality within a certain context.⁴¹ As a social practice, language has some social effects whether it is in spoken form or in written form. Through the medium of language, speaker/writer and/or listener/reader engage in the practices of sense making and reality construction (Berger & Luckmann, 1966; Weick, 1995). It is language (writing, talking, and thinking) that shapes to a large extent what people perceive as reality and it is again through language that people make sense of their perceptions (Winkler, 2011). In the case of corporate codes, language can create the set of beliefs and norms that promote behavioural regularities and improve understandings and interactions of individuals and groups (rhetor and audiences). Developing (or even revising) and implementing a corporate code in an organisation can therefore be seen as a process of change. As discussed previously, in times of need, organisations use language (text) as rhetorical arguments to shift the institutional logics in institutional fields to enable institutional change (See Brown et al., 2012; Green et al., 2009; and Suddaby & Greenwood, 2005).

A corporate code can create “collective sense making” among its intended audiences. This type of sense making is evident in how the code functions in an organisation. Managers need to find the right words to express the ideas and behaviours valued by the organisation (Stevens, 2009). Chapter 4 has related to the eight functions of a code of ethics (five internal functions and three external functions) identified by Kaptein et al. (2003). The five internal functions are: (1) *to orient* (making employees more aware of norms and values in the workplace); (2) *to explain* (making clear employee responsibilities); (3) *to steer* (making clear the expectations of employee actions); (4) *to correct* (making it possible to address each other concerning compliance with the code); and (5) *to enthuse* (activating commitment and loyalty to the organisation). The three

⁴¹ Chapter 2 has provided some insights into the “social construct” attribute of language.

external functions are: (1) to distinguish (making the organisation more recognisable and creating a good image); (2) to legitimate (creating more trust in the organisation among external stakeholders and broader society); and (3) to correct (making it possible to address compliance with the code by external stakeholders and broader society).

Chapter 4 has also alluded to eight broad code functions catalogued by Frankel (1989, pp. 111-112) using language as the communication strategy to “bridge” the organisation-society nexus. The eight functions are: (1) an enabling document (guidance); (2) basis of public evaluation; (3) socialisation (common purpose); (4) enhancing reputation and public interest; (5) preserving entrenched biases; (6) deterring unethical behaviour; (7) support system; and (8) adjudications. A close examination of these broad functions shows that they share similar function attributes as those identified by Kaptein et al. (2003). In other words, corporate codes are phrased in such a way as to show the corporation’s ethical responsibilities in two separate but related modes. One is the assumption of a “power” stance in the management-stakeholder relationship (an authoritarian position instilling a strong sense of obligation on the employees) – to orient, to explain, to steer, to correct and to enthuse. The other is a “conciliatory” stance in the organisation-society relationship (an appeasing attitude) – to distinguish, to legitimate and to correct. It would appear that code adoption is not merely “inward-looking” dealing with internal procedures and intra-corporate relationships but also “outward-looking” emphasising corporate citizenship and the relationships with external stakeholders (Newberg, 2005). Over the past decades, corporations have made efforts to become more responsive to the needs and interests of their various constituencies. Despite these new initiatives, one can also discern in the codes a rhetoric that is integral to sustaining the ideology of capitalism and to ensuring corporate resilience and long-term survival (Craig & Amernic, 2004).

The exogenous and endogenous pressures on corporate codes adoption presented in previous chapters can also help to explain code language patterns. Historically, code adoptions and revisions were a response to highly publicised scandals (for example, bribery, corruption, environmental, and other legitimacy-threatening incidents) and/or major regulatory developments (for example, in the U.S., the FCPA 1977, the FSGO

1991, and the SOX 2002).⁴² Such exogenous pressures saw the growth of “a market for ethical conduct” coercing the identified culprits to address their misdeeds. Although corporate codes are voluntary, self-regulatory mechanisms that typically serve multiple functions as mentioned before, their content and language tend to be heavily influenced by the corporate regulatory environment. For instance, the listing requirements of public companies could have an impact on code adoption and code content (that is, the rhetoric and design of the codes). Since exogenous pressures and endogenous pressures are not mutually exclusive, change will endogenously occur in response to “exogenous shocks” (Greif & Laitin, 2004). In particular, the content or rhetoric (text) of the codes is determined endogenously and as such, represents the thinking of key management (rhetor) in response to the exogenous parameters (Winkler, 2011).

In classical economic terms, managers are self-interested beings who will act to accrue benefits for themselves and to increase firm value. Code rhetoric is therefore a product of managerial rationality, which involves the sense making of some crucial matters – what exogenous shocks mean to the organisation and how endogenous contradictions are to be resolved. Code adoption therefore shows a direct relationship between the language/cognition and action of senior managers (Green et al., 2009). Through rhetoric, managers are able to shape corporate legitimacy by presenting what is morally imperative for their organisations. One can argue that the broad content of any corporate code is determined before the code is written. Apart from the early adopters, much of the content has been taken for granted since most corporate codes are written with the intent to appease stakeholders. Copying is commonplace, with codes showing common themes, common sentences, similar terms and phraseology. In their pursuit of rationality and self-interest, most managers “perceive the safeguarding and certifying of the ethics of the business as beneficial to their business;” hence the prevalence of similar corporate codes (Norberg, 2009, p. 216).

Corporations have created and/or revised codes of ethics as a means of corporate communication to demonstrate their practices are congruent with society’s values, norms, and beliefs. The aim is to make strategic use of persuasive language, or rhetoric, to alter public perception and subsequently restore public trust. In this aspect, corporate codes are manifest in language that is “change-oriented and values-driven” (Stevens, 2009, p.

⁴² This pragmatic measure was briefly discussed in Chapter 4, Section 4.4.3.

17). As such, code adoption is not only an important means to restore organisational legitimacy when social rules and norms have been violated but also a strategic use of the discourse of stakeholder engagement as a means of signalling change (Beelitz & Merkl-Davies, 2012; Connelly et al., 2011).

5.3.1 Prior studies on corporate code rhetoric

A rich body of ethics literature exists that explores the content of the codes of ethics. Most of this research has chosen content analysis as the method of inquiry while a limited few have opted to use some variants of discourse analysis such as critical discourse analysis, rhetorical analysis, textual analysis, and linguistic analysis. Apart from studies by Farrell and Farrell (1998), Pollach (2003), Long and Driscoll (2008), and Holder-Webb and Cohen (2012) which have examined the language of codes of ethics as a communication strategy for their respective purposes, there appears to be limited research on the discursive role of corporate codes of ethics particularly in relation to their persuasive intent. This study employs rhetorical analysis, one of the discursive methods to ascertain the persuasive appeals of corporate codes through an interpretation of code language in relation to its situational and environmental contexts. Before doing so, it is pertinent to look at some prior research on corporate codes. The following is a summary of some prior studies on corporate codes of ethics that are relevant to this chapter. It includes those examining the corporate codes in light of various types of organisational legitimacy, the significance of culture, stakeholders, and the language or rhetoric of the codes.

Researchers who have conducted code research relating to legitimacy include Long and Driscoll (2008), Stevens (2009), Forster et al. (2009), Holder-Webb and Cohen (2012), and Bodolica and Spraggon (2015). Long and Driscoll (2008) regarded codes of ethics as institutionalised organisational structures that extended some form of legitimacy to organisations. In their content analysis of a sample of 40 Canadian corporate codes, they found that a strategic, self-interested rationale was behind the adoption of corporate codes of ethics. The codes were “textual artifacts” employed as strategic devices to legitimise the activities of the organisations. Even though a cognitive form of legitimacy developed through institutional isomorphism later on, the emphasis on strategic legitimacy (that is, the pursuit of self-interest) would suggest that it paid only lip service to moral values. Stevens (2009) believed that the very act of creating a code was an

important managerial process and strategy. As the codes were documents having subtexts and more subtle messages buried in the texts, she analysed the Lehman Brothers'⁴³ code of ethics to ascertain its communication content in four aspects – relational, transformational, informational, and instructional attributes. She found that the Lehman Code⁴⁴ was weak in all four aspects, did not offer vision and guidance to its employees, and reflected the culture of the investment banking industry that tended to be aggressive, competitive, and interested in adhering to regulations only when it was in their best interest to do so. Similar to Long and Driscoll's argument that codes were strategic documents, the Lehman Code served a window-dressing role to appease stakeholders.

Forster et al. (2009) employed textual analysis to explore the extent of language commonality in the content of ethical codes in two contrasting samples of U.S. companies – a sample of 400 large companies and a sample of 100 small companies. They found a significant percentage of sentence matching especially for smaller companies suggesting that there were isomorphic pressures on smaller firms to conform to demands from the external pressures such as legal and regulatory requirements. With limited resources and less political power, smaller companies tended to mimic the words of larger and more successful companies. In a way, this was a means to cognitive legitimacy by conducting corporate affairs in a conventional way. Holder-Webb and Cohen's (2012) research provided further evidence of institutional pressures regarding regulation. They found a "copy and paste society" characterised by an important overlap in the content of codes of ethics. Their findings indicated that the design of codes of ethics continued to be influenced by legalistic pressures, where cognitive legitimacy was widespread emphasising the "looking good" form and nebulous language but being decoupled from the essence of moral action in organisations. In a way, this cynical view of isomorphism in codes of ethics also echoes the views of Ashforth and Gibbs (1990), Long and Driscoll (2008), and many others.

Despite the prevalent influence of legal trends in driving ethical homogenisation and persistent decoupling (as highlighted by Forster et al., 2009; Holder-Webb & Cohen,

⁴³ Lehman Brothers was a prestigious U.S. bank that went bankrupt in 2008 after 158 years of business as an investment bank. Like several other major banks, it had invested heavily in subprime mortgages and failed to accurately weigh the risks of such an investment in a period of economic downturn.

⁴⁴ The Lehman Brothers Code of Ethics was a five-page document outlining the behaviours expected of employees. It started with an introduction stating that all employees must comply with the code, which was to be read in conjunction with its Internal Code of Conduct. The two documents represented the bank's position on its corporate ethical values (Stevens, 2009; Stevens & Buechler, 2013).

2012; and Long & Driscoll, 2008), Bodolica and Spraggon's (2015) analysis of the codes of four clusters of Canadian publicly listed acquiring companies (entitled "shadowers," "compliers," "updaters," and "promoters") showed a mixture of findings. While many companies succumbed to isomorphic pressures (coercive and cognitive) by adopting codes and producing them with extensive textual commonalities, there was evidence of an emerging trend of commitment to social responsibilities with some firms showing a desire to not only adapt to the evolving business conditions but also aspire to achieving the highest level of moral and ethical standard. This way of thinking has been supported by Erwin's (2011) research on the link between code quality and corporate social responsibility (CSR). By employing the benchmarking method to grade the quality of corporate codes with eight broad critical components,⁴⁵ Erwin was able to differentiate between the top corporate social responsibility (CSR) companies from those producing perfunctory codes and concludes that codes of ethics were a practical corporate social responsibility instrument used to govern employee behaviour and establish a socially responsible organisational culture. In short, comprehensive codes of ethics that were consistent with corporate values had a significant impact on ethical behaviour within the organisation.

Fairfax (2007) also offered a positive view of corporate rhetoric from a social psychology perspective. She was of the view that a corporation's own words or rhetoric might be useful in the effort to reform corporate behaviour based on the consistency principle, that is, when people made commitments through some speech, written or oral, they felt pressured to engage in actions that supported those commitments. This pressure stemmed from the desire for consistency, which theorists viewed as a central motivator of human behaviour. Corporate discourses such as codes of ethics, annual reports, and mission statements are saturated with the rhetoric of responsibility to signal corporate commitment to promoting an inclusive and supportive workplace. However, some mechanisms have to be in place to "harness" these rhetoric-saturated discourses to turn them into ethically responsible behaviour.

The research conducted by Farrell and Farrell (1998), Winkler (2011), and van Zolingen and Honders (2010) have provided insight into the influences corporate codes have on

⁴⁵ The eight broad critical components used by Erwin (2011) in his study are "Public Availability;" "Tone from the Top;" "Readability and Tone;" "Non-Retaliation and Reporting;" "Commitment and Values;" "Risk Topics;" "Comprehension Aids;" and "Presentation and Style."

the behaviour of their intended audiences. A causal effect of this text reading could help to discover the power relationships between management (code author) and employees (the audience). Farrell and Farrell (1998) used linguistic analysis to examine language use in five Australian corporate codes. They found that the language used in the codes constructed an authoritarian position in the writer-reader relationship from the overuse of grammatical structures such as relational clauses, the passive, normalisation, grammatical metaphor, and modality. Collectively, these structures communicated a strong sense of obligation to the reader/audience by disallowing any discretionary decision-making through the strong authoritarian tone in the text. This also reflected a hierarchical power relationship between the writer/rhetor and the audience. In a similar vein, Winkler (2011) used a critical discourse technique to analyse 17 German codes to ascertain how code language positioned internal actors (that is, employees) and affected their understanding of code content. The findings showed that employees were represented as passive receivers of rules who lacked ethical empowerment and needed to be monitored and controlled by senior managers. This led Winkler to conclude that such emphasis on hierarchical relations could lead to code compliance without helping employees to develop moral commitments. van Zolingen and Honders (2010) used the metaphors given by three groups of local government employees to gain insight into how to maximise code effectiveness in that organisation. They found that the implementation of a code of ethics did not automatically evoke more personal and collective reflection on moral dilemmas and employees needed the active support of management to engage them in “ethical discussions” to put them in the correct frame of mind. Pollach (2003) explored how six companies communicated their ethical stance on their websites and found that, despite their different approaches of corporate ethics, they had adopted similar communicative strategies to achieve their goals.

In a different note and in the tradition of Langlois and Schlegelmilch (1990) and Kaptein (2004), Scholtens and Dam (2007) identified culture as an important factor that could play a significant role in explaining the different approaches in codes. After an analysis of 2700 corporate codes of ethics from 24 countries on ethical policies (related to human rights, bribery, and corruption) and the comprehensiveness, implementation, and communication of codes, they found that there were significant differences among ethical policies of firms headquartered in different countries that could be explained by

Hofstede's cultural framework of individualism, power distance, uncertainty avoidance, and masculinity (Hofstede, 1980; 1991).

The preceding discussion has highlighted the case for codes of ethics as an important means for organisations to acquire legitimacy. As discussed in Chapter 4 and in Section 5.2, in the new "global" economy where competition is intense, corporations need to (re)align their goals with societal values and expectations to survive. Exogenous pressures in the institutional environment necessitate shifts in institutional logics to facilitate change. Endogenous pressures within the organisation also motivate managers to self-reflect and consider the benefits of establishing and maintaining a moral social order. Legitimation is therefore the perceived need to attain acceptance in society. It involves an isomorphic process to ensure that the public accept corporate conduct as desirable, proper, and appropriate within some socially constructed system of norms (DiMaggio & Powell, 1983; Scott, 1987, 2014; Suchman, 1995). A code of ethics is therefore a type of organisational "sense making" manifested in the production of a symbolic form of texts that is widely disseminated to enable both internal and external stakeholders to understand and accept the changes in the institutionalised practices. The critical role of language and text in the institutional processes to legitimacy is highlighted in the following two key propositions and their associated propositions:

Proposition 1:

The prevalence of corporate codes of ethics is a response to social and institutional pressures and expectations, and a reflection of corporate strategies to (re)establish legitimacy.

- 1a. Corporations whose claim to legitimacy is predicated on high levels of trust (that is, whose legitimacy is threatened) are most likely to produce codes of ethics for strategic reasons.
- 1b. Corporations whose claim to legitimacy is predicated on high levels of trust (that is, whose legitimacy is threatened) are most likely to produce codes of ethics to show it is the right thing to do (moral propriety).
- 1c. Corporations whose claim to legitimacy is predicated on high levels of trust (that is, whose legitimacy is threatened) are most likely to produce codes of ethics that exhibit convergence/homogeneity across organisations consistent with institutional pressures.

Proposition 2:

Corporate codes of ethics represent a discourse of persuasion aimed at changing the perceptions of stakeholders.

- 2a. The language of corporate codes is produced in a sense-making and rational manner to persuade organisational audiences that the organisation is conforming socially and culturally.
- 2b. The language of corporate codes is endorsed by key management to show social and cultural conformity.
- 2c. The language of corporate codes is presented in such a way as to appeal to the emotional experiences of stakeholders.
- 2d. The language of corporate codes is presented in such a way as to communicate a strong sense of obligation.

The next section discusses the rationale for the choice of rhetorical analysis as the method to analyse the above propositions.

5.4 RESEARCH METHODOLOGY

The *micro*-level discourse analysis aims to gain an insight into the texts (language data) of corporate codes to ascertain their hidden messages. Quite a number of research studies have employed the technique of content analysis to analyse the content of corporate codes with a variety of focal points (see previous section on Forster et al., 2009; Holder-Webb & Cohen, 2012; Long & Driscoll, 2008; Stevens, 2009; Stevens & Buechler, 2013; Winkler, 2011). Detailed analyses of how specific texts (codes) actually work are less common, yet such work can show how texts may cause institutional change by describing how key actors are defined and cultural myths are drawn upon (Brown et al., 2012). Since language and society are dialectally interrelated, such an analysis can most likely help unravel the role of managerial discourse in the construction of organisational legitimacy (Beelitz & Merkl-Davies, 2012).

5.4.1 Rhetorical analysis as research methodology

Recent developments in social and organisational research have seen language (and language use) as an important subject matter of study. The significance of language has contributed to growing interest in discourses (Fairclough, 2003; Johnstone, 2008; Phillips

& Hardy, 2002). Discourse, in general terms, refers to actual practices of talking and writing (Phillips & Hardy, 2002). It can simultaneously indicate the ideas represented in the discourse (a variety of forms as well as content) and the interactive processes by which ideas are conveyed (Schmidt, 2008). Analysis of discourse becomes analysis of what people do with language in specific settings (Potter, 1997). Discourse analysis is a theoretical framework for observing social reality in the study of individuals, organisations, and societies. As a methodology, it explains how we know the social world through language. As a method, it provides a set of analytical tools to study how language constructs social reality, not how it reflects and reveals it (Phillips & Hardy, 2002). Rhetoric is one of the discursive approaches to study social reality.

Rhetorical skills were highly valued as an art of public speaking and debate in classical Greece and Rome. Since then, it has formed the core of political oratory and an area of academic study. The rise of positivism and scientific rationality saw rhetoric as the study of superficial elements within a communications style rather than the specific content. However, as a human discourse, rhetoric has an important modern resonance. In recent years, it has taken on an interpretive function and “come to be used not just as a means of producing effective communications, but also as a way of understanding communication” (Selzer, 2004, p. 280). Rhetoric specialises in discourse which is argumentative and which seeks to persuade (Wetherell, Taylor, & Yates, 2004). It focuses on “the role of language in structuring social action but is distinguished by a very specific focus on suasion and influence” (Suddaby & Greenwood, 2005, p. 39). Since the way organisations define and use words often reflects their implicit intentions and consequent actions, rhetoric can be used to study organisational discourse to that end, with the intent to identifying genres or recurrent patterns of interests, goals, and shared assumptions that become embedded in persuasive texts (Suddaby & Greenwood, 2005). Language contains not only elements of style and delivery but also emotional appeals. It is a means of communication that has general designs on people’s values, action, attitudes and beliefs (Selzer, 2004). Even though some critics view rhetoric as “highly ornamental or deceptive or even manipulative speech or writing” (Selzer, 2004, p. 280), this pejorative connotation of obscuring the truth does not diminish the value of rhetorical analysis in rationally analysing organisational change (Castelló & Lozeno, 2011; Suddaby & Greenwood, 2005).

Rhetoric is often considered part of the study of discourse employing similar analytical tools as semiotics,⁴⁶ hermeneutics,⁴⁷ and discursive and narrative analyses in understanding organisational phenomena. Rhetorical analysis is interested in the role of language in structuring social action with a particular focus on suasion and influence (Suddaby & Greenwood, 2005). Its focus is on the use of text/writing that has a persuasive intent to influence the beliefs and attitudes of audiences. It engages in critical reading or scrutiny of the text to offer an additional perspective and understanding of how people or organisations within specific social situations attempt to influence others through language. As such, rhetorical analysis is a specific discourse analysis in two aspects. First, it has a situational focus on persuasive texts generated specifically in response to social change, and second, it has some cognitive assumptions of a direct and dynamic relationship between rhetorical structures of argument and the cognition and action of actors (Suddaby & Greenwood, 2005). Other forms of discourse analysis examine texts without stating the impact of the message on recipients.

This thesis employs rhetorical analysis for the following reasons. Firstly, it helps to include the language element in explaining the *process* rather than the effect corporate codes play in pursuing organisational legitimacy. Legitimacy is a subject of interest to institutional researchers (see Meyer & Rowan, 1977; Scott, 2003; Suchman, 1995); however, not many researchers have explored the link between legitimacy and corporate codes linguistically. Since legitimacy relates closely to perception and language is an integral part of the socio-cultural institutional environment, an investigation into the social uses of language would add value to the body of literature on institutionalisation. Secondly, institutions such as codes of ethics are social constructions, produced through meaningful interactions (see Meyer & Rowan, 1977) and discourse. Language, as a type of discourse, is fundamental to the construction of social relationships because it is a collection of meaningful texts helping people to make sense of their surroundings. A systematic study of the texts can help to elucidate how the social reality of corporate

⁴⁶ Semiotics is the science of signs or sign systems. It is an approach to the analysis of symbols in everyday life. Semiotic analysis focuses on the way that messages are communicated as systems of cultural meaning through a system of signs. A *sign* constitutes the relationship between the *signifier* (the recognisable word, sound, or image that communicates a particular message), and the *signified* (the message or concept itself) (Bryman & Bell, 2007). According to Halliday (1978), it provides a means of examining the communicative practice with a focus on the textual structure of language.

⁴⁷ Hermeneutics has its origins in the interpretation of biblical texts. In social research, it is concerned with the empathic understanding of human action, for example, the meanings of a text from the perspective of its author. This entails attention to the social and historical context within which the text was produced (Bryman & Bell, 2007; Clegg, Hardy, Lawrence & Nord, 2006).

codes is constructed – the context of the texts, the actors, and the processes through which the texts shape behaviour. Thirdly, the property of language creates an argumentation and rhetorical context. The linguistic features of codes – choice of words, grammatical structures, and style of presentation – all provide linguistic messages about the agency and motivation in institutionalisation. Lastly, rhetorical analysis has been used in research in many areas but rarely in previous research on corporate codes of ethics. Some research studies have used discourse analysis to address legitimacy issues, for example, corporate responsibility rhetoric (Castelló & Lozano, 2011) and post-critical incident (Beelitz & Merkl-Davies, 2012). Others have used rhetorical analysis to address specific issues such as leadership discourses (Amernic & Craig, 2000, 2001, 2013; Craig & Amernic, 2004), the balanced scorecard (Nørreklit, 2003), accounting standards (Young, 2003), jurisdictional struggle between multidisciplinary partnerships (Suddaby & Greenwood, 2005), and aged care policy issues (Brown et al., 2012). Usually, most researchers investigated the content of corporate codes without exploring further into other code dimensions such as subtexts or more subtle messages in the code that could provide a better understanding of these documents (Stevens, 1996).⁴⁸ It is therefore fruitful to conduct rhetorical analysis on corporate codes to attain a better understanding of the organisation, the various internal and external actors (and their expected behaviour), and the relations between these social entities. Before reviewing some relevant prior studies and the research design, it is necessary to examine what rhetorical analysis entails.

Rhetorical analysis, or critical reading, takes place *ex post*, that is, after the delivery of the object of interest. When reading rhetorically, one has to pay attention to the rhetor-text-audience relationship to understand how persuasion works. The aim is not only to react to the message (the claims and arguments presented within the “message”/discourse), but to appreciate how the producer of that message is conveying the message to a particular audience in a particular setting for a specific purpose. Such a process requires a heightened awareness of the rhetorical situation, that is, the circumstances of the subject, audience, occasion, and purpose. Rhetorical analysis is therefore “an effort to read interpretively, with an eye toward understanding a message fully and how that message is crafted to earn a particular response” (Selzer, 2004, p. 282).

⁴⁸ Some exceptions are Farrell and Farrell (1998), Pollach (2003), Stevens (2009), and Stevens and Buechler (2013).

It is “the art of discovering proofs with a tripartite analysis focusing on the speaker, the audience and the speech with message content and form at the centre of the argument – that we use communication to control our environment, including the actions of others” (Neuendorf, 2002, p. 31). Simply put, it focuses on how messages are delivered, with what (intended or actual) effects and the researchers who adopt this approach will rely on the identification of structural elements, tropes, styles of argumentation, and the like (Krippendorff, 2013).

According to Selzer (2004), there are many approaches to rhetorical analysis, and no one “correct” way to do it. Whichever approach taken necessarily involves both textual analysis and contextual analysis. The two analyses are not mutually exclusive and can complement one another by helping to find clues about the persuasive tactics and appeals that are visible in the object under study. The following discusses the roles of textual and contextual analyses in three key components of rhetorical analysis – rhetorical strategies, the rhetorical situation, and stylistic pillars.

5.4.1.1 Rhetorical strategies

Rhetorical analysis, using textual analysis, involves “careful analysis of a single symbolic act considered on its own discrete terms” (Selzer, 2004, p. 283). As a mode of rhetorical inquiry, it examines the persuasive discourse through a tripartite analysis of the rhetor-text-audience relationship to attain additional perspective and understanding of the rhetorical strategies: *why* and *how* a text is written, *by whom*, and *to whom*. According to Leach (2000), this necessarily requires an examination of the multiplicity of the uses of the word “rhetoric” – the act of persuasion, the analysis of acts of persuasion, and a worldview about the persuasive power of discourse. In addition, a fundamental concept in rhetoric is the concept of audience, the target of the act of persuasion. Audiences can vary considerably in their homogeneity, context, and their willingness to accept the premises posed by the rhetor. Within specific social situations, both targeted and implied audiences are subject to the same persuasive power of arguments embedded in the text designed to create a particular worldview, that is, to align their values and actions, attitudes and beliefs with that of the rhetor (Selzer, 2004; Young, 2003).

The writer of the persuasive text is the rhetor, whose actions, from preliminary planning to final delivery of the rhetorical strategies and tactics, have been analysed by classical

rhetoricians using the five canons. They are: (i) *inventio* (the finding or creation of information for persuasive acts, and the planning of strategies), (ii) *dispositio* (or arrangement), (iii) *elocutio* (or style), (iv) *memoria* (the recollection of rhetorical resources that one might call upon, as well as the memorisation of what has been invented and arranged), and (v) *pronuntiatio* (or delivery) (Leach, 2000; Selzer, 2004).

As the core of persuasion, the text has been designed to express a particular point of view about the significance of events and activities to encourage the audience to accept the proffered perspective. This text is the outcome of some conscious deliberation by knowledgeable agents (that is, the rhetor). The thinking and intent of the rhetor are contained in the text and are made present through the deliberate choice of reasons and devices given to the audience to accept (or reject) a particular position or belief. Rhetorical researchers have a preference to use three Aristotelian rhetorical strategies (associated with the first canon *inventio* mentioned above) to analyse persuasive language: *logos* (appeal to logical reasoning), *ethos* (appeal to character), and *pathos* (appeal to emotions). The rhetor of a text may use one or a combination of these three appeals to persuade his/her audience.

5.4.1.1.1 *Logos*

Logos is derived from the Greek word “logic.” Logic is a rational element inherent in our ability to calculate and reason in a stringent logical manner. Part of the province of rhetoric is to examine how logical arguments work to convince the audience of their validity. As such, *logos* focuses on appealing to the audience’s rational comprehension of logical arguments constructed based on the facts collated from the specific setting. It covers everything humans are able to establish through reason. A text can be persuasive but lacks sound *logos*. To be convincing, a text has to use sound *logos*. Soundness in argumentation manifests in the internal consistency of the message – the clarity of the claim/argument, the logic of its reasons, and the effectiveness of its supporting evidence. Only such logical consistency can assist persuasive discourses to shape or construct the desired worldviews (Leach, 2000; Nørreklit, 2003; Selzer, 2004).

5.4.1.1.2 *Ethos*

Ethos is derived from the Greek word “character.” It is used to describe the guiding beliefs or ideals that characterise a community or ideology. Implicitly, it focuses on the

spirit motivating the ideas and customs. *Ethos* is the form of persuasive argument relying on the establishment of the credibility of the rhetor. It appeals to the audience's trust in the rhetor's trustworthiness, credibility, and authority (Nørreklit, 2003; Selzer, 2004; Suddaby & Greenwood, 2005) as the basis of creating a particular worldview. Much *ethos* is connected to the overall communicative situation, which creates the desired confidence in the rhetor's *logos*. Subtle forms of persuasion also play out in power relationships set up in texts (Leach, 2000). This is often conveyed through the tone and style of the message, the way the rhetor refers to differing views, and the rhetor's reputation as it exists independently from the message (that is, his or her expertise in the field, his or her previous record or integrity, and so forth). The impact of *ethos* is to encourage "trust" in the authority and guidance of the rhetor. Trust in the speaker, built through *ethos*, enhances the appeal of arguments based on reason (Selzer, 2004). However, the choice of tone and style can create some emotions, which will be discussed in the next section.

5.4.1.1.3 Pathos

Pathos originated from the Greek word "experience." *Pathos* is the form of persuasive argument appealing to emotions based on the assumption that belief and persuasion depend heavily on the force of emotional appeals. Since the aim is to awaken emotions in the audience to induce them to the belief and action desired, *pathos* is a communication technique requiring the rhetor to have a good understanding of the specific situation, deploy good *ethos* to establish credibility, and apply specific emotional appeals (Nørreklit, 2003; Selzer, 2004). Emotional appeal can be accomplished in a multitude of ways, one of which, through the style and tone (semantics and syntax) of the text, appeals to the emotional experience of the audience (guilt, fear, or empathy) prompting them to identify with the rhetor's worldview. In a way, *pathos* has some intrinsic connection with *logos* and *ethos* by being the emotive extension of *logos* (logical and fact-based arguments) and *ethos* (character support of the arguments) (Nørreklit, 2003; Selzer, 2004).

In a nutshell, the three rhetorical devices emphasise the trustworthiness and credibility of the rhetor (*ethos*), for the persuasive reasons in an argument that derive from a community's deeply and fervently held values (*pathos*), and for the sound reasons that emerge from intellectual reasoning (*logos*). Rhetorical analysis using these rhetorical

devices provides not only a perspective in how social realities are created but also a better understanding of the dynamics of power in the rhetor-text-audience nexus. It is obvious that a text-based rhetorical analysis focuses on the subject matter (a specific issue or issues) that the rhetor wants to communicate to a particular audience. However, solely relying on text is not sufficient to attain the desired persuasive goals, it is important to consider the rhetorical situation, that is, the context that has prompted the production of the text (Leach, 2000). The next section discusses the essential nature of “context” in the construction of discourse to attain a better appreciation of the persuasive tactics and appeals visible in the text.

5.4.1.2 The rhetorical situation

Rhetorical analysis from a contextualist perspective resists notions of the "bounded text" removed from others as it treats individual pieces of texts as parts of communication chains that work together to perform rhetorical work (Selzer, 2004). This approach helps to provide a sense of bearing of the rhetorical situation and regards the text as part of a larger communicative network to fully comprehend the effects of a particular use of rhetoric on an audience, the clues these effects provide as to the rhetor's intent, and the circumstances that lead to the production of the text. It is futile to judge the potential persuasive value of the rhetorical strategies based on text alone without taking into account its relation to context and the entirety of the discourse (Leach, 2000). Context, be it situational, institutional, and/or societal, can have a major influence on the semantics of the text, in terms of wording, tone, and relationships. Text, by itself, can be studied objectively as a subject for its esoteric properties. As a communicative device, it needs to be analysed in terms of its social dimensions. Most texts are embedded in specific contexts, therefore it is more informative to analyse the text in relation to its specific context and the entirety of the discourse. In many cases, an argumentative repertoire grounded in specific contexts turns out to be problematic contexts that require rhetoric as a symbolic meaning of inducing cooperation (Burke, 1969).

Contextualists generally regard the text as anything but self-contained. They treat it as a response to other texts or social incidents. A careful analysis of where the words, ideas, and organisation of the text come from can reveal a much more complex picture of the rhetorical situation (Bazerman & Prior, 2004). This may lead to an enhanced understanding of how texts reflect not only the viewpoints of their creators but also the attitudes and

values of the communities that sustain them. By understanding the broader issues that lead to the production of the texts/communication, an analyst can appreciate better what is going on within that text. According to Leach (2000), the context of discourse should be the first port of call when embarking on rhetorical analysis.

Three classical rhetoric concepts provide useful explanations about contextualising rhetoric so as to capture the “deep structure” or implicit meaning of texts. The concept of “*kairos*,” loosely translated, is the “timeliness” of a persuasive text which reflects the text’s sensitivity to time or the “opportune moment.” “*Audience*” provides the contextual focus of the argument ensuring that the recipient of the text is immediate and identifiable. While the audience does not always reside in the text, the text rhetorically positions its audience in ways that can be discerned through analysis (Leach, 2000; Suddaby & Greenwood, 2005). The concept of “*decorum*,” or “appropriateness” focuses on fitting the argument to both the moment and the audience. This implies that everything within a persuasive act has a central rhetorical goal that the rhetor consistently maintains to ensure a good match between the audience and the circumstance. This also shows that the decisions made by rhetors are rational (Selzer, 2004).

5.4.1.3 Stylistic pillars

Persuasive discourse cannot achieve its stated goals without the five “canons” of rhetoric briefly introduced in Section 5.4.1. The *inventio* (invention) canon addresses the process of developing arguments for particular purposes. Three elements associated with this canon – *logos*, *ethos*, and *pathos* – were discussed in Section 5.4.1.1. How words and sentences are chosen in response to rhetorical circumstances and how these words and sentences are arranged and presented can have major impact on the audience. The effect of persuasion is much enhanced by the presence of the remaining rhetorical canons – *dispositio* (arrangement), *elocutio* (style), *memoria* (memory), and *pronuntiatio* (delivery). The *dispositio* (arrangement) canon organises the arguments for extreme effect on audiences. The arrangement and positioning of themes, paragraphs, and comprehension aids (in the form of narrations and graphics) can reveal the emphatic value the rhetor places in the arguments. The *elocutio* (style) canon, a complex part of the relationship between the form and content of the text, is manifested in the sentence structures and word choices. Style is contextual because words and sentences are specifically chosen in response to rhetorical circumstances and they can change as the occasion changes. The

memoria (memory) canon analyses the access and recall that the rhetor has to the content of his/her argument. This necessarily relates to the recollection of rhetorical resources that the rhetor is able to call upon including those that has been “invented” and “arranged.” Finally, the *pronuntiatio* (delivery) canon explores the relationship between the dissemination of the piece of argument, that is, the tone used when presenting the arguments. There are different dissemination patterns to suit the style of address, which provides more clues about the rhetor intent as well as the rhetor-audience relationship.

These “rituals” and “conventions” define boundaries and limits of both the creation of discourse and the reception of discourse (Leach, 2000). Contextual analysis can help to discover information about what is said and why (invention), about the order in which it is said (arrangement), and how it is said (style and tone). Rhetorical analysis, like writing, is a social activity. It involves not simply passively decoding a message but actively understanding the designs the message has for readers in a particular setting. As such, both text and context are vital in rhetorical analysis (Selzer, 2004).

Effective rhetorical analysis should ideally comprise both textual and contextual approaches as they complement each other. Most rhetoric researchers employ both kinds of analysis simultaneously and recursively to get a fuller appreciation of the interplay between text and context, especially since clues about context are often embedded in text. Rhetoric is “inside” texts, but it is also “outside” (Selzer, 2004). Specific rhetorical performances are an irreducible mixture of text and context, so interpretation and analysis of those performances must account for both as well (Seizer, 2004). As an example, Pollach (2003) used a combination of textual and contextual approaches to explore how six companies from three different ethics paradigms communicated their ethical stance on their websites. The companies were chosen purposively for reasons of typicality and variety, as well as the stigmas they faced. Despite encountering different corporate ideologies, she was able to confirm that all six companies had frequently used ethics statements as public relations tools in both external and internal corporate communications. Such disclosures contained indirect references to ethical lapses, persuasive appeals, audience address, and the hyper-textual organisation of the messages. All these are evidence of the presence of the classical rhetorical concepts discussed earlier. However, no matter how complementary the textual and contextual approaches are, no rhetorical analysis can provide a complete picture of the rhetorical issue under

investigation. It is at best somewhat partial and incomplete, ready to be deepened, corrected, modified, and extended by the insights of others (Selzer, 2004). The next section details the research design of the current study using rhetorical analysis.

5.5 RESEARCH DESIGN

Previous research tends to favour content analysis and simple textual analysis to determine various subjects presented in corporate codes with little attention being paid to the language of codes (Pollach, 2003; Stevens, 1994). Yet a careful examination of the interaction of the key variables in the code construction and communication processes can help to explain how texts, as a persuasive language, may affect institutional change (Brown et al., 2012; Suddaby & Greenwood, 2005). To fill this research gap, this study follows a path largely untrodden in previous research by engaging in a “close reading” of corporate codes of ethics using rhetorical analysis to investigate the important role of rhetoric in the institutionalisation of corporate codes of ethics. It aims to explain the true motives of code production by analysing the key rhetorical qualities of the corporate codes: the intent of the writers of the codes, the range of audiences and their diverse interests, and the skilful rhetoric embedded in the text of the codes to persuade their audiences. The following sections explain the process of research design, which involves various steps from identifying company samples, collecting their codes of ethics, and designing a research instrument to analyse the code information rhetorically.

5.5.1 Sample collection

This section explains how the samples were selected and how the codes were collected.

5.5.1.1 The samples

This study focused on the codes of ethics (or similar documents) of 100 global top companies. The list of sample companies was obtained from research conducted by PricewaterhouseCoopers (PwC) called “Global Top 100 Companies by Market Capitalisation” published in March 2014. These were public companies having substantial size, a wide spread of shareholders, and impressive market capitalisation. They were from nine distinct industries: Financials (21), Consumer Goods (16), Oil & Gas (14), Technology (13), Health Care (14), Consumer Services (7), Industrials (7), Telecommunications (5), and Basic Materials (5). These were by no means homogeneous groups but they provided a broad spectrum of the key enterprises in the world economy.

As global companies, they had headquarters in various parts of the world. The majority of the companies were located in the U.S. While 94 companies had produced a code of ethics (included some embedded ones), the remaining six (6) had not. These six companies were all from Asia: five (four Financials and one Technology) from China, and one Telecommunications from Japan. The details and the geographic and industry distributions of the companies are presented in Table 5.1.

TABLE 5.1 *Status of Code Adoption - Geographic and Industry Distribution*

REGIONS		INDUSTRY								TOTAL	
		Industrials	Health Care	Financials	Consumer Goods	Consumer Services	Technology	Telecom	Oil & Gas		Basic Materials
NORTH AMERICA	Canada			2						2	
	U.S.	6	7	7	4	7	10	2	4	47	
SOUTH AMERICA	Brazil				1				1	2	
	Columbia								1	1	
EUROZONE	Belgium				1					1	
	Denmark		1							1	
	France		1	1	2				1	5	
	Germany	1			2		1			6	
	Italy								1	1	
	Ireland			1						1	
	Netherlands				1					1	
	Norway								1	1	
	Spain			1	1					2	
	Switzerland		2		1					3	
U.K.		1	2	1			1	2	1	8	
ASIA	China			4*			1*		2	7	
	Hong Kong							1		1	
	Japan				1			1*		2	
	South Korea				1					1	
	Taiwan						1			1	
Australia			3						1	4	
Russia								1		1	
S. Arabia									1	1	
Total (Companies)		7	12	17	16	7	13	5	14	5	100
Total (Code Adoption)		7	12	17	16	7	12	4	14	5	94
Total (No Adoption)				4*			1*	1*			6

*Companies not producing any formal codes of ethics or code of conduct.

The PwC list was chosen for a number of reasons. First, the companies were big public companies having corporate websites that could be easily accessed for code retrieval. The active websites also provided the assurance of the currency of the ethical codes as the study sought to provide up-to-date evidence on the content of ethical codes. Second, as global enterprises, these companies were arguably the most important and the most visible as perceived by investors, business analysts and the public due to their leadership roles in their respective sector and in the global economy at the current point in time. An examination of their codes of ethics could provide some insights into their ethical stance in various perspectives. Third, the geographical and cultural backgrounds of these companies could provide evidence about the specificity of the codes reflecting their

unique institutional environments. Fourth, the industry differences of the companies could shed some light on the cross-section of the population of global firms. Finally, with increased globalism, the codes might reveal the various institutional pressures the companies were experiencing due to their large size, geographic spread, high visibility, broad exposure, and strong influence on/by their constituencies.

5.5.1.2 The codes

This study relied exclusively on publicly available information. The corporate websites of the selected companies offered an efficient avenue for accessing their corporate codes of ethics. Data collection started with visiting the web pages of the 100 companies listed in the PwC document and searching for formal documents typically labelled “Code of Ethics” or “Code of Business Conduct” or “Ethical Principles” or similar titles addressing business ethics issues and delineating employee responsibilities/conduct.⁴⁹ While some of such codes were easily accessible in the Corporate Governance segment of the Investor Relation section for some companies, others were not so easy to locate. Once a code or the like was identified, it was downloaded to “capture the moment” to avoid the incidents of updates during the study period. The downloading process resulted in 100 electronic documents covering all the 100 companies on the list. However, not all 100 documents were codes of ethics *per se*. The collection could be easily put into three distinct groups. The majority of the documents belonged to the first group, which were stand-alone codes in booklet form (This included some English translations by non-English speaking companies). The second group included a small number of PDF files converted from word documents. The last and smallest group were the few extractions of ethics-related information from the company annual reports or report of corporate social responsibility where no codes of ethics were produced. On finding that some companies did not produce corporate codes, a further web search was undertaken to ascertain the trading status of all the 100 companies to determine on which particular stock exchange(s) they were listed. Stock exchanges often have their listing requirements concerning ethics codes. For instance, the NYSE and the NASDAQ both require that their listed firms must have and provide to the public a code of ethics starting in fiscal year 2004 (Forster et al., 2009; Holder-Webb & Cohen, 2012). Other exchanges may have different requirements due to regional differences. Appendix 5.1 (Rhetorical data) provides a composite of the

⁴⁹ The companies had titled the codes in a variety of names. As they were documents providing ethical guidance, this study has categorically called them codes of ethics.

above information – the names of the 100 global companies, their ranking by market capitalisation, their industry, the types of code disclosure, and the stock exchange(s) they were trading on.

5.5.2 Research instrument

Having downloaded the corporate codes and ethics-related information, the next step was to design an instrument to facilitate the interpretation of code content in accordance with the purpose of the study, that is, to reveal the nature of legitimacy derived from each of the codes and to ascertain the extent of the persuasive discourse. This requires the instrument to cover how the text of the codes, as a response to the institutional pressures, presents moral/ethical rules and describes ethical responsibilities for both internal and external constituents. As a backdrop to this process, Figure 5.2 summaries the developmental stages of rhetorical analysis for the study. It first specified theoretically the rationale of the study and then conceptually the propositions to be addressed. Then it operationalised the process of sample identification and data (code) collection in preparation for the construction of the research instrument in the form of a coding schema. The construction of the research instrument took place in two stages, followed by rhetorical analysis incorporating the functional language approach.

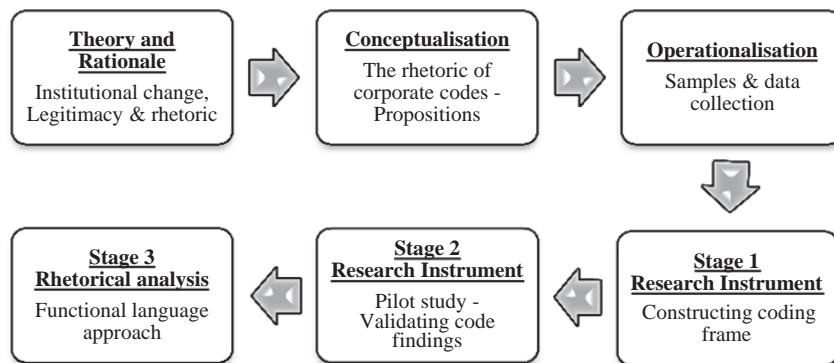


Figure 5.2 Rhetorical Analysis - Stages of Development

5.5.2.1 Data collection

A logical starting point for rhetorical analysis of code language is to take into account the meaning of the text through content analysis. Content analysis is the method that is most commonly used to assess information for classification (Kothari, Li, & Short, 2009; Krippendorff, 2013; Milne & Adler, 1999; Neuendorf, 2002) as it helps to codify the text (or content) of a piece of writing into various groups (or categories) depending on

selected criteria (Kothari et al., 2009; Milne & Adler, 1999). This section discusses such a process, including the choice of human coding, data collection, inter-coder reliability, and the pilot study.

5.5.2.1.1 Human coding

With the availability and popularity of computing coding software packages in recent years, it is rare to find a text content analysis today that does not use computer analysis. As the codes collected from the sample companies of this study were all digitised, it would be pertinent to ask why the study did not make use of the new field of computer coding on the text of the codes. Indeed, computing technology brings some advantages to coding such as speed, volume, and consistency (Krippendorff, 2013; Neuendorf, 2002). However, the typical computing coding analysis is limited to text only; conversely, the typical human-coding scheme looks beyond text analysis. There are some inherent disadvantages of computing coding such as its limitations in judging the kind of nuance that seems relatively straightforward to the human coder and understanding the shape and limits of the universe of digitised data that is being coded. The current study required critical reading of the text in terms of its “tone and style.” The digitised image involved not only text but also graphics (pictures, photographs, typeface sizes) which required human judgement as scaling was required on comprehensibility (ease of understanding), comprehensiveness (attention to detail), and the use of comprehension aides (pictures, graphics, typeface sizes, Q&As, FAQs, and case examples). Computer-generated results at best focus on the *manifest content* of text – character, word, sentence, or paragraph counts but they cannot determine the *latent content* – the meaning or subtleness of text. It was decided that, despite the advantages of computer coding, human coders would generate valid and important results as they are generally better at assessing the implied meanings within the text, especially in terms of what is not stated.

5.5.2.1.2 Coding frame

With reference to the schema of Figure 5.2, the first stage in constructing the research instrument focused on the preparatory work for the coding frame. Content analysis of codes involved two activities: the construction of a classification scheme (defining a broad set of themes/categories) and the development of a set of rules about “what” and “how” to select and record the data to be classified (a set of comprehensive coding rules/guidelines). The first activity involved a review of relevant literature on codes,

particularly the prior research on code content (for example, Farrell & Farrell, 1998; Gaumnitz & Lere, 2002; Kaptein, 2004; Long & Driscoll, 2008; Pollach, 2003) focusing on the “manifest content,” that is, “those elements that are physically present” (Berg, 2004, p. 269) of the actual codes (text-in-use or real texts, not secondary source). This was an important step as the examination of coding schemes in prior studies helped to create a “blueprint” of the coding structure through the identification of some themes or behavioural constraints common to significant subsets of the codes (Gaumnitz & Lere, 2002). The perusal of the actual codes reinforced the “mapping” of ideas in light of the blueprint as it helped to discern patterns of discrete data segments (recurrent words, phrases, and referential texts in the codes that articulate a particular logic) that captured the essence and range of themes/arguments used in prior studies.

As such, a preliminary set of content categories was developed to “set the boundaries” by identifying the themes and behavioural constraints that were of interest to the current study. Table 5.2 presents the coding frame with its six broad categories (themes) into which the content was coded, along with the specific coding rules that served as decision guide for these themes. These six thematic categories formed the research focus of the rhetorical analysis. The first theme “Generality” was concerned with the way corporate codes were developed and the companies’ sensitivity to environmental conditions. The second and third themes, “Values and Commitment” and “Workplace Conduct,” looked into the moral values, responsibilities and prescribed actions of the companies. The fourth theme “Responsiveness to Stakeholders” focused on the companies’ treatment of their stakeholders. The fifth theme “Compliance and Implementation” examined the procedural aspect of code enforcement and violations. The last theme “Tone and Style” specifically looked at the language use of the codes.

The pre-defined broad categories became the basic framework for the development of sub-categories (or sub-sets) with their specific coding rules for each of the existing broad categories. As the coding proceeded, new items were added to the coding frame to capture related ethical issues or ideas. In such cases, new sub-themes and their associated coding rules were added or modified to increase the explanatory power of the coding frame. This iterative process produced a research instrument comprising six broad categories with 60 sub-sets each of which had its specific coding rule. The classifications (coding frame) were independently verified by three accounting academics. The research

instrument is presented in Appendix 5.2. Code content information collected using this research instrument formed the basis of the rhetorical analysis of this study.

TABLE 5.2 *Research Instrument – Coding Frame*

CATEGORY/THEME	CODING RULE
Generality	Has the code included a statement from the CEO (or the Chairman) relating to the purpose of, and adherence to, the code? Has the code emphasized the company's compliance to all relevant laws, rules and regulations? Is the code a living document that will be updated to meet changing conditions?
Values and commitment	Are certain core company values highlighted in the code? Is the code tailored to the culture and needs of the organization? Has it mentioned its ethical commitments held to its stakeholders?
Workplace conduct	Does the code explicitly address the key risk areas for the company's given industry? What are the prescribed values and actions?
Responsiveness to stakeholders	Who are the stakeholders? What is the message to stakeholders?
Compliance and implementation	Is there an explicit commitment to code enforcement? Are there enforcement mechanisms in place? What are the consequences of reporting violations? Are there support channels available for reporting violations?
Tone and style	How is the code presented? Is there anything in the language used in the code that is indicative of its intent? What tone of language is adopted in the code - positive, negative, authoritarian or empowering? How readable and comprehensible is the code? Are there comprehension aids (such as visual images, examples and Q&A's) readers understand key concepts?

The second stage (the second activity) focused on acquiring the “latent content” (Suddaby & Greenwood, 2005) of the codes. The aim was to use the coding rules provided in the research instrument as the guide to collect information from the sample codes. As mentioned earlier, content analysis was the logical starting point to classify the meaning of the text of the codes under the proposed thematic units for later rhetorical analysis, which examined the “deep structure” or implicit categories of meaning of the language (Berg, 2004). Thus, “meaning orientated” (subjective) analysis (Smith & Taffler, 2000) was the focus to determine whether the thematic units were present in the codes under investigation. A semantic procedure was chosen whereby “words, sentences and larger text units are classified as exemplars of predefined themes and valuations” (Bauer, 2000, p. 134). When analysing each code of ethics, the content that satisfied a particular coding rule was to be allocated to the particular category represented by this rule. Although the reliability of this approach may appear to be diminished, human judgement is an inherent feature of semantic units of analysis (Bauer, 2000). This is also

supported by Krippendorff (2013) that, for many content analyses, thematic units, requiring user judgment in the determination of the hidden messages conveyed in the narratives, may be preferable despite difficulties in application.

5.5.2.2 Inter-coder reliability and pilot study

According to Milne and Adler (1999, p. 238), content analysts “need to demonstrate the reliability of their instruments and/or reliability of the data collected using those instruments.” Reliability in content analysis involves two separate but related issues. First, the coders need to ensure that the coded data or data set that they have produced from their content analysis is in fact reliable. The use of multiple coders can help to achieve reliability by reporting that there are few discrepancies between the coders or that they have reached a high level of co-agreement by re-analysing the discrepancies and resolving the differences. Second, the issue relates to the reliability associated with the coding instrument itself. This normally involves the running of pilot testing to reveal serious problems of the coding instrument that need to be addressed before the study begins in earnest.

To address the issue of reliability of content analysis, there were two coders involved in content analysing the sample codes and ethics-related material independently: one was the researcher of the study and the other was a research assistant with a proven record in qualitative research. This study used both numeric coding and scaling. *Numeric coding* involved assigning numbers to answers so that responses could be grouped into a limited number of categories for efficient analysis. Two numbers were used: “1” representing the positive response of the coding rule of a specific sub-theme while “0” indicating a negative response to the coding rule of the sub-theme. This coding scheme applied to all items in Categories 1 to 5 (“Generality,” “Values and Commitment,” “Workplace Conduct,” “Responsiveness to Stakeholders,” “Compliance and Implementations”), and the first six items of Category 6 (“Tone and Style”). Since the remaining four items in Category 6 dealt with concepts that were abstract which could not be measured in a standardised way, a *Likert scale* (from 1 to 5) was used to capture coder perception of the item under investigation. Scaling is a procedure for the assignment of numbers to items so as to impart some of the characteristics of numbers to the item in question.

Both coders were aware that when analysing each code of ethics or ethics-related

material, they were to allocate the content that satisfied a particular coding to that particular category/theme represented by the rule and record all their findings in an Excel Worksheet using both coding and scaling. To ensure that the coded data in the study had met a certain standard of reliability, the two coders had maintained constant contact with each other to assure that they shared similar viewpoints in their “reading” of the corporate codes and ethics-related materials. Since the coding frame was developed by the first coder (the researcher the study), three face-to-face pre-coding meetings were scheduled to familiarise the second coder (the researcher assistant) with the task on hand. At the first meeting, the second coder was given two key components of the study: a USB containing the complete set of 100 corporate codes (including the ethics-related material) and the research instrument in Excel datasheet format.

During the first meeting, the aim of the research was discussed and the instructions given. The second coder was given the understanding that, after a review of both the codes and the research instrument, he could make suggestions to improve the re-defined themes and sub-themes of the research instrument in terms of the thematic units of the coding frame and the appropriateness of the coding rules. The second and third meetings were conducted specifically for that purpose - to fine-tune the sub-sets of the research instrument. This was carried out successfully by revising both the categories and coding rules where appropriate. When both coders found the coding satisfactory, they agreed to test its soundness by independently examining five randomly-selected codes and recording their coding decisions on the Excel datasheet. To facilitate future discussion, they agreed to compile a checklist of the difficult decisions by inserting their views/assumptions in the cell of the item in question (using the “edit comment” menu of the Excel options) in the Excel datasheet.

When the coders met again to compare notes and discuss their findings once the preliminary examination of the five codes was complete, they found the checklist of inserted notes in the specific cells of the Excel datasheet extremely useful in reconciling their differences. They were able to locate the issues quickly and debate their views/assumptions on their decisions. Some areas of differences included the different terminology used by different codes in expressing the same concept/idea. For example, “organisational culture” could be an all-encompassing concept that covered a shared set of beliefs, values, and patterns of behaviour (including compliance) that the company

wanted to nurture among its members. “Openness for dialogue” basically meant that the company encouraged employees and others to approach it with ethical and conduct concerns; however, it could also be interpreted more broadly as an open-door policy where senior management were willing to interact openly with their stakeholders on a wide range of matters. The other area that created some different views related to the perception of “Tone and Style” of the presentation of the codes. Even though the coders worked in the same discipline, they showed some individual differences (in terms of their ontology of the world) in their assessment of the categories – “comprehension” and “comprehensibility” of the codes. The extent of differences was not great, and after some robust discussion to reconcile the differences, they were able to come to a mutual agreement. When some minor differences were discovered later, they managed to resolve them through email communication.

Based on the favourable result of the five-code test, it was considered pertinent to test an expanded set of codes in the form of a pilot study. Pilot studies are a crucial element of a good study design. Even though conducting a pilot study does not guarantee success in the main study, it does help to detect weaknesses in design and instrumentation. Should there be errors and omissions found in the pilot study, they could be addressed before the formal test to improve the chances of a clear outcome (Bryman & Bell, 2007; Krippendorff, 2013; Neuendorff, 2002). Since the samples were sourced from nine distinct industries, it was decided that 18 codes comprising two codes from each of the nine industries would provide a fair representation of the broad spectrum of the key enterprises in the global economy. Both coders participated in the pilot to retest the two issues of reliability (as discussed previously). The results of the pilot study were independently verified by the same three academics who had viewed/commented on the research instrument previously. Results of the pilot study showed that both coders agreed to more than 80% of the code values, including their segmentation, thus demonstrating reliability as a product of inter-objectivity (Bauer, 2000; Weber, 1990). As no major errors were detected in both the design and data collection, it was decided that the coders continue with their task by completing their respective analysis of the remaining codes.

5.5.3 Framework of analysis

The final stage of the research is the actual rhetorical analysis of the information collected from the research instrument on the 94 codes of ethics and six (6) items of

ethics-related material. It focused on a critical reading paying particular attention to the persuasive aspect of the text: how the codes persuaded audiences of their ethical argument (logic), established the ethos (credibility and status) of the rhetor, and created a climate of feeling that would influence the audiences toward certain views and actions (Bazerman & Prior, 2004; Selzer, 2004). It also considered the contextual situations leading to the production of the texts. Such a task required a thorough analysis of the collected data under the same theme and across themes to unravel the hidden meanings of the communicative process – the situation/context underlying the rhetoric action, the presence of particular themes or topics, the signs of audiences, and authorial construction. This stage of “deep reading” focused on discovering *what* texts did and *how* texts meant rather than *what* they meant. To have a good understanding of the underlying reasons of corporate code disclosures, it was necessary to gain access to the “situation” of the code language to comprehend the “particularity of the views and experiences in the texts” (Bazerman & Prior, 2004, p. 3) in light of the various pressures in the institutional environment. This process was facilitated by having acquired a good understanding of the broader and institutional environments of the discourse of corporate codes of ethics through the *macro*-context and *meso*-context analyses (Chapters 2 to 4).

Halliday (1978), like many linguists before him, considered that language is a product of the social process. In this process, social reality was constructed through the ongoing exchange of meanings with significant others, through discourse (verbally or in written form). The construal of this reality was through a semantic system in which the reality was encoded. As the medium of these shared meanings, language assumed a socio-cultural context serving various social functions. Language forms are a means to achieve the desired communication effects. The close relationship between language forms and social context suggests that the various social functions of language determine the content of language and, in turn, the choice of language varies according to social functions and personal intent.

To ensure that the rhetorical scrutiny leads to a better understanding of the corporate code disclosure practices and the specific cultural settings of code language, this part of the study employs Halliday’s (1978) social-functional approach to language as the framework of analysis. According to Halliday (1978), there are two interrelated aspects of the complex linguistic “function:” one relates to the social meanings of speech acts, in

contexts of language use and the other refers to components of meaning in the language system, which determines the internal organisation of the system itself. Accordingly, language resources have three general functions: the ideational function, the interpersonal function, and the textual function (Halliday, 1978; Halliday & Hasan, 1976). Such a configuration is useful in analysing the role of persuasive language in the rhetor-text-audience relationship particularly in the context of corporate codes of ethics. This framework takes into account the purpose of the current study – the role of code language as a corporate communication device, the relationship between those involved (for example, the rhetor and the audience), the attitude and feelings of those involved in the language, and the setting of the rhetoric event (the context). The following discusses the three functions and their relevance to this study.

5.5.3.1 The ideational function

The ideational function is the part of the linguistic system that is concerned with the expression of “content.” As an integral part of language, text is always “about something” – things, concepts, relations, and events and their circumstances. According to Halliday (1978), there are two parts to text, the experiential and the logical. “The experiential,” as can be deciphered from the word “experiential,” is more directly concerned with the representation of experience while “the logical” expresses the abstract logical relations that derive only indirectly from experience. Language is a natural phenomenon in social life as the imitative and symbolic instinct is inherent in all intelligent beings. Human beings’ need to learn and to communicate see them engage in an ongoing exchange of meanings with significant others. Invariably, the social context plays a part in determining what they say; and what they say plays a part in determining the context.

This particular approach to language with its focus on content helps to analyse the content, the context, and the persuasive appeals of ethics codes. The use of rhetorical contextual analysis is pertinent in ascertaining the rhetor’s experience of the external world and of his/her own inner world, that is, his/her own consciousness. The content of the code normally reflects the rhetor’s ethical reflections of the exogenous shocks (external factors) and his/her mental turmoil. Rhetorical concepts such as “*kairos*”⁵⁰ and “*audience*” can assist in the contextual analysis of the first five of the six thematic units

⁵⁰ “*Kairos*,” as mentioned in Section 5.4.1.2, relates to sensitivity to time or the “opportune moment” (Suddaby & Greenwood, 2005, p. 44).

of the research instrument (that is, “Generality,” “Values and Commitment,” “Workplace Conduct,” “Responsiveness to Stakeholders,” and “Compliance and Implementation”). Simultaneously, textual analysis using the three concepts (*logos*, *ethos*, and *pathos*) of rhetorical canon *inventio* can help to explain the rhetorical strategies of legitimacy in the codes. Persuasive appeals based on the above concepts are attempts to construct credible arguments to appeal for a change in viewpoints and actions among the intended audiences. By using this function to constitute the basis of analysis, it would be possible to find out the rationale of code initiatives, the causes of such actions, the diverse group of audience, the focus on certain content (for instance, why compliance is a major concern for corporations), and the manner such credible and logical arguments are constructed. It would also be possible to read between the lines to discern the different types of legitimacy the corporation is pursuing.

5.5.3.2 The interpersonal function

The interpersonal function is concerned with language’s resources for shaping interaction (Halliday & Hasan, 1976). The ideational function of language has an important aspect – agent – suggesting that the exchange of meanings through language has at least two participants – an addresser and an addressee. As such, language constructs social relations between participants in situations of its use. It assumes an interacting role by constructing “forms of interaction between an addresser and an addressee in particular social roles” (Stillar, 1998, p. 19). The role that an addresser takes on allows him/her to express his/her “wishes, feelings, attitudes and judgements” (Halliday, 1978, p. 32) and to impose certain demands on others, such as assigning roles or responsibilities to the addressees. Thus, in critically reading a piece of text, one can explore some linguistic structures such as grammatical metaphor, modals, and attitudinals to have some understanding of the rhetor and the intention of the text. The interacting role of language is diverse and can be found across a number of lexical and grammatical structures. For instance, it is not difficult to discern relational and even positional processes at work through an examination of the choice of mood (interrogative, declarative, or imperative) and the use of the modal verb (can, could, may, might, must, ought to, shall, should, will, would). Such processes cover many different ways of expressing relationships between people, qualities or ideas, and providing clues about attitudes and intentions in the delivery process.

A rhetorical analysis of corporate codes would show them as expressions of interpersonal relationships because language is an exchange of meanings between certain actors. The content of the codes has information regarding the responsibilities rhetors have assigned to their external and internal stakeholders, particularly the employees. An examination of the information collected for Parts one to five of the research instrument would help to affirm the existence of such interpersonal relationships. What is apparent would be that the delegation of responsibilities would signal the engagement of the audiences on an emotional level, eliciting their multitude of feelings (fear, guilt, respect, or others) to be persuaded and accept what has been disseminated in the codes.

Part six of the research instrument (Tone and Style) helps to provide information about interpersonal relationships within the corporate codes, as some specific linguistic structures in the codes could provide clues to the status and power of such relationships. For example, the use of relative pronouns in self-reference (first-person pronouns) and personal address (first-person and second-person pronouns) and the use of active voice versus passive voice can add relational and positional meanings to the analysis. The way the message is disseminated can communicate a strong sense of obligation with the aim of influencing cognitions and encouraging conformity in understanding (share conceptions) (Brown et al., 2012; Farrell & Farrell, 1998; Phillips et al., 2004). The communication of social obligation often takes on a strong authoritarian tone that can render the audience powerless. The recurrent usage of certain linguistic features also shows that language, though a medium to facilitate social discourse, may work to define status and power by marginalising the addressees.

5.5.3.3 The textual function

The textual function is the third language function employed in rhetorical analysis. This function serves to provide structural and organisational meanings to the entire text or message in relation to the setting. There are two dimensions of the cohesion in the textual function: cohesive devices and thematic structure. A text becomes a meaningful message when it draws on textual function resources to create both internal cohesion (where the text “hangs together” as a whole) and external cohesion (where the text shows connections with its context). Cohesive devices help to build connections between the text and its context. Such devices can be words (as lexical “references”), the sequencing, and the structuring of larger spans of text that provide some sort of focus for readers.

Thematic structure is an important element in building cohesion. It is a major means by which information is structured in text. The “thematic progression” in the text sets an agenda by emphasising the importance of certain items over others. When analysing a text for theme, the analyst is not interested in the theme of a particular sentence in isolation. He/she would be more concerned with the recurrence of themes throughout a text or section of text (Halliday, 1978). The thematic development in a text is a major means through which a writer structures the text’s flow of information. Links signal relationships between sentences or between different texts dwelling on similar topics. Links suggest cohesion, which gives text unity and continuity, enabling it to be interpreted as a whole, rather than as an unorganised collection of words. Textual cohesion is therefore the basis of “meaning making” as it allows interpretive ties that are made possible by the text.

The textual function is in fact the “enabling” function organising the cohesive relations of the other two functions, the ideational function (language as reflection and representation) and the interpersonal function (language as interaction), to ensure that the discourse comes to life as a meaningful message-carrying text. These three functions are interdependent, and they provide the necessary functional meaning to the message-carrying units of language (Stillar, 1998) with the textual function working to “structure the flow of information, link different parts of the text with one another, and link the text with its context” (Stillar, 1998, p. 45).

The current rhetorical study considers the notion of text structure in a broader sense, denoting not only the organisation of the text of individual sections but also the cohesion of the text in the whole document. As such, it employs four rhetorical canons to assess the cohesion of all six parts of the research instrument in terms of code disclosure. *Dispositio* looks at the arrangement/organisation of text in persuading the target audiences (whether it has a logically sound structure). *Elocutio* examines the stylistic manoeuvres to express the relationship between form, content and context. *Memoria* explores the extent of recall/recollection of the elements in the message (cultural memories shared by authors and their audiences). Lastly, *pronuntiatio* explores the different delivery patterns to ascertain the relationship between the dissemination of the text/code and its content.

In sum, this framework of analysis provides support to the rhetorical analysis of the role of corporate codes of ethics in facilitating institutional change. Institutions influence behaviour (Phillips et al., 2004). Corporate codes construct social activities and relations with the intent to influence perception and behaviour. To understand corporate codes of ethics, one needs to explore the practices that managers engage in to produce them as well as the ways that code practices “gain their meanings and functions as dynamic elements of specific cultural settings” (Bazerman & Prior, 2004, p. 2). Analysing code language on the basis of rhetorical concepts can provide a better understanding of how codes conform to social norms and expectations of particular communities as well as the distribution and exercise of power among groups and individuals.

5.6 CHAPTER SUMMARY

The aim of this chapter is to identify a plausible methodology to analyse the content and context of corporate codes for a better understanding of the underlying reasons of code adoption in an increasingly complex institutional environment. It builds on the institutional explanation of the prevalence of corporate codes in recent years by including a language dimension based on the concept that “institutions are built upon language” as espoused by Berger and Luckmann (1966, p. 64). The chapter highlights that modern corporations have been experiencing a legitimacy crisis created by inadequate corporate governance, a lack of sustainable corporate social responsibility, incompetent leadership, and widespread unethical practices. To restore badly damaged legitimacy, corporations are eager to redefine their relationship with their stakeholders by assuming the duty of corporate responsibility and embracing the necessary changes to restore public trust. The pervasive interest in business ethics has provided them with the opportunity to articulate their ethical stance and increasingly more companies have produced a code of ethics as an expression of social conformity. Because corporate codes are generally formal documents, companies producing such codes are perceived as embracing some rhetorical underpinnings to legitimate their position in society.

There is voluminous literature on business ethics and codes of ethics. However, researchers have not paid much attention to the use of persuasive language in code construction. Although there is increasing awareness that corporations exist in a “negotiated or enacted environment” (Suddaby & Greenwood, 2005, p. 62) where social conformance is paramount to organisational survival, the majority of code researchers

have tended to employ a content analysis approach to gather some thematic information such as purpose, functions, enforcement, and the like. Such content analysis usually does not “discern subtexts and more subtle messages buried in text” (Stevens, 2009, p. 17). As such, this study chooses to adopt a rhetorical analysis of the corporate codes (and ethics-related material) of 100 top global companies to ascertain, rhetorically, how these companies legitimise themselves as ethical players in the business world. The language of corporate codes is examined from different rhetorical dimensions, including some linguistic elements. It would provide some explanations about the practice: *why* managers produce codes and in what ways; *how* code language directs its audience to various concerns; *how* such language influences audience beliefs and actions; and *how* meaning is created through different linguistic, rhetorical, and graphic resources. The next chapter discusses the results and findings of the rhetorical analysis with particular emphasis on the two key propositions and the associated propositions.

CHAPTER 6

DISCUSSION OF RESULTS AND FINDINGS

6.1 INTRODUCTION

This chapter completes the *micro*-level analysis of the discourse of corporate codes of ethics started in Chapter 5. It has been argued in Chapter 5 that corporations' own words would be important in responding to the institutional pressures to improve their ethical stance. Prior to that, it has been discussed in Chapter 4 that exogenous and endogenous pressures have intensified the need for corporations to go through an isomorphic process to (re)establish organisational legitimacy to survive in the highly competitive and uncertain global economy. This has seen corporations producing codes of ethics to demonstrate their ethical initiatives/commitments. The chapter has highlighted the communicative role played by language to influence public perceptions about corporate ethical actions and identified rhetorical analysis as a suitable method to determine whether corporate codes were used as legitimacy gaining devices. In view of this corporate rhetorical strategy, two propositions were formulated: (1) Firms with high corporate reputation tend to adopt codes of ethics as a response to social and institutional pressures and expectations to (re)establish trust and legitimacy, and (2) These codes are used as persuasive devices to sway public perceptions in their favour. Despite the tendency of some quarters to treat corporate communications as a type of superficial rhetoric (see Byron, 2006; Holder-Webb & Cohen, 2012; Newberg, 2005; Stevens, 2009), this study takes the view that a rhetorical reading of corporate codes can provide a better understanding of the motives of code adoption, or specifically, management intent. A rhetorical examination of corporate codes of ethics can not only provide some insights into how language works as a persuasive tool but also reveal how legitimacy can be achieved through effective use of code language. A research instrument was designed to capture the essential features of the corporate codes and ethics-related materials. It was based on a sample of 100 top global companies by market capitalisation identified by PricewaterhouseCoopers in March 2014.

This chapter analyses the data collected from the research instrument on the sample codes and discusses the results in light of the two propositions formulated. In an era when business ethics is brought to the fore of public policy, this study aims to contribute to a better understanding of the extent to which global corporations have developed

corporate ethical culture and the degree to which codes of ethics have been integrated into the mainstream processes of the organisations (Farrell & Cobbin, 1996). Since this part of the study focuses on the *micro*-text analysis of corporate codes of ethics, its objectives were to test empirically and rhetorically the propositions drawn from the selected theoretical and methodological frameworks through a careful study of the strategies corporations used to (re)gain trust and corporate legitimacy. Specifically, the study was concerned with the underlying motives of code content and the hidden meaning/message they contained. These could arguably serve as proof or disproof of the propositions made about legitimacy and persuasion. As such, it set out to assess the extent of ethical content and to ascertain whether corporations “intend to provide high-level ethical guidance on corporate ethical issues or emphatically law-based and predetermined resolutions of what should be handled as moral dilemmas” (Farrell & Cobbin, 1996, p. 37). The analysis could help to identify the commonality and differences of code language in terms of the most cited issues or omissions – the responsibilities the companies committed themselves to, the wording chosen to express such responsibilities, the set of universal norms/principles being upheld, and many others. Findings of the analysis could enrich the understanding of not only the role of corporate codes as corporate strategic resource but also the “power” of code language in the rapidly changing institutional environment.

The current analysis is conducted in two interrelated parts on the data collected from the content analysis of the codes: (1) an account of some basic features of the codes and the six broad categories (thematic units) of the codes, and (2) a rhetorical interpretation of the intentionality of the codes focusing on the six thematic units. The first part provides some descriptive statistics relating to general areas of the codes such as the type of companies, code title, length, format, year of disclosure, and an explanation of the relationships among the six thematic units. The second part provides more in-depth discussion of the findings of the specific issues under each of the six broad categories. Results collected on these specific issues allow for a more holistic view of code language and content. It provides room to go beyond the normal way of content analysis and shed some light on the unspoken but operative motives for code implementation through the “now highly visible and institutionalized forms of organizational language” (Weaver, 1993, p. 45). It also provides answers to the rhetorical questions of legitimacy and persuasion in light of corporations’ conceptualisations of codes and the contextual roots

of such conceptualisations.

The structure of this chapter is as follows. The next section presents the background information on the companies producing corporate codes of ethics and/or ethics-related materials by focusing on the basic or peripheral features of the codes. Section three provides some descriptive statistics about the results of the thematic content of the codes collected from the research instrument. Based on this thematic information, section four delves into the intentionality of code disclosure by interpreting the motivation of organisations (including managers) in producing codes. It employs rhetorical analysis first to explain how the discourse of corporate codes helps to attain corporate legitimacy using persuasive language. Then it describes the relationships between the text of codes (content) and its context, and employs three Aristotelian rhetorical concepts (*logos*, *ethos* and *pathos*) to illustrate the persuasive support rendered for corporate legitimacy. This rhetorical assessment of the general findings involves some interpretations that go beyond ascertaining the common summary character of the codes for a better understanding of the conduct of organisational life through organisational language. Section five draws some concluding remarks on the chapter.

6.2 BASIC FEATURES OF THE CODES

Chapter 5 has briefly mentioned some general background of the sample companies, namely, industry sector, country of origin, and status of code adoption. This section discusses in more detail various aspects of code adoption using the data collected. Codes are analysed as to the frequency of their presence in the companies, titles (names), format, length, the target audience, and significant relationships among these factors. Before probing into the content of corporate codes, some of the peripheral features are (re)examined.

6.2.1 Code adoption

Descriptive statistics provides summaries of content analysis of the codes, highlighting aspects of commonality as well as diversity. Profiling the companies helps to identify some variables that can explain the thematic patterns (for example, the common threads and differences) and serve as the groundwork for more detailed analysis of code adoption. As such, corporate profiling contributes in its unique way to code analysis with its identification of corporate features such as industry, size, country, year of adoption,

format, and length. Chapter 5 reported that the 100 sample companies were from nine key industry sectors: Basic Materials, Consumer Goods, Consumer Services, Financials, Health Care, Industrials, Oil & Gas, Technology, and Telecommunications. Table 6.1 shows the number and percentage of companies adopting codes by sector as well as the ranking of market capitalisation by sector.

TABLE 6.1 *Industry Classification and Market Capitalisation*

Industry	Number of companies	Industry market capitalisation 2014		Companies adopting codes (by sector)	
		\$billion	Median	Number	%
Financials	21	2,978	115	17	81
Technology	13	2,535	149	12	92
Consumer Goods	16	2,293	121.5	16	100
Oil & Gas	14	2,150	111.5	14	100
Health Care	12	1,895	137	12	100
Consumer Services	7	980	134	7	100
Industrials	7	836	96	7	100
Telecommunications	5	754	166	4	80
Basic Materials	<u>5</u>	601	107	<u>5</u>	100
TOTAL	100			94	

It is generally assumed that the bigger the size of the company and the more sensitive the industry in which the company operates, the more likely that the company will be implicated in unethical behaviour thus attracting media attention (Bakan, 2004; Berd, 2010; Jackson & Nelson, 2004; Jones & Pollitt, 1998; Rowland; 2005). A plausible explanation for this contention is related to the potential power the company can wield due to its command of substantial financial and human resources. Table 6.1 shows that 94 (out of the 100) companies in the study adopted a code of ethics and out of the nine industries, six of them (Consumer Goods, Oil & Gas, Health Care, Consumer Services, Industrials, and Basic Materials) had an adoption rate of 100%. Some of these were sensitive industries in nature (for example, Oil & Gas, and Health Care); others had frequently attracted media attention for their unfair dealings with customers (for example, Consumer Goods, Consumer Services, Industrials, and Basic Materials). In the past, some of the above industries had low levels of code adoption (Weaver, 1993). The evidence found in this study would suggest that global companies were inclined to produce corporate codes because of their economic and social significance in the contemporary global economy as observed by Kaptein (2004), Singh et al. (2005), and Wood (2000). Even the remaining three sectors (Financials, Technology, and Telecommunications) had an adoption rate of over 80%. Five of the six companies that did not have a corporate code of ethics were Chinese companies – four from the financial

sector (*Agricultural Bank of China*, *Bank of China*, *China Construction Bank Corporation*, and *Industrial and Commercial Bank of China (ICBC)*) and one from the technology sector (*Tencent*). The remaining non-adopter was a Japanese telecommunications company (*Softbank*). Many of the sample companies had multiple listings on various key exchanges such as the NYSE, the NASDAQ, or other major European exchanges such as the London Stock Exchange (LSE). However, these six non-adopters were not listed on any of the U.S. or European exchanges. The five Chinese companies were listed on the Shanghai Stock Exchange (SSE) and Hong Kong Stock Exchange (SEHK) and the Japanese telecommunications company was listed on the Tokyo Stock Exchange (TYO). As such, their brief ethics-related information was extracted either from the corporate governance section of their annual reports or their corporate social responsibility reports. It is likely that such non-adoption could be explained by a combination of factors such as national cultures, political environments, and the regulatory regimes of certain stock exchanges (as discussed in Chapter 5, Section 5.3.1 on the various findings of prior research).

6.2.2 Code prevalence

The information collected from the content analysis method also provided evidence that corporate codes were most prevalent in the U.S., with 47 (50%) of the codes sourced from that country (see Figure 6.1). This was not surprising as the U.S. has a long tradition of business codes and ethics research (see early chapters, particularly Chapter 2, Sections 2.4 and 2.5). The U.S. was also instrumental in propelling the business ethics movement and provided the code models for other countries. In addition, the U.S. had the highest number of large corporations (Langlois & Schlegelmilch, 1990; Kaptein, 2004).

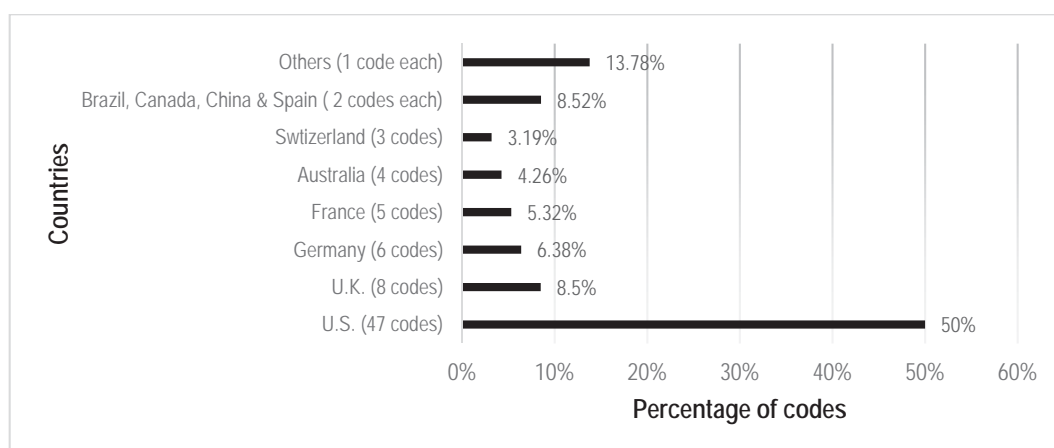


Figure 6.1 Code Prevalence by Country

Since multinational companies tend to list on the NYSE, the NASDAQ, the LSE, or some European exchanges, they have to comply with the respective listing requirements (some sort of coercive forces according to the institutional theorists). This reflects the high level of code adoption of listed companies in this study, as can be seen from the summaries of code adoption by country in Figure 6.1. “Others” (13.78% of codes) was made up of 13 countries with one code each. These include: Spain, Belgium, Columbia, Denmark, Hong Kong, Ireland, Italy, Japan, the Netherlands, Norway, Russia, Saudi Arabia, South Korea, and Taiwan.

6.2.3 Year of adoption

The information collected on the “year of adoption,” which was based on the publication date of the code, is also very revealing. Even though the 94 codes showed a huge variation in the year of code adoption, ranging from as early as 1943 (one code – Johnson & Johnson’s Credo representing 1.1%) to 2014 (19 codes representing 20%). Apart from 10 codes that did not provide an issue date (presumably they used existing as current), most of the codes were very recent ranging from 2006 (3 codes), 2007 (2 codes), 2008 (3 codes), 2009 (5 codes), 2010 (7 codes), 2011 (11 codes), 2012 (16 codes), to 2013 (24 codes).

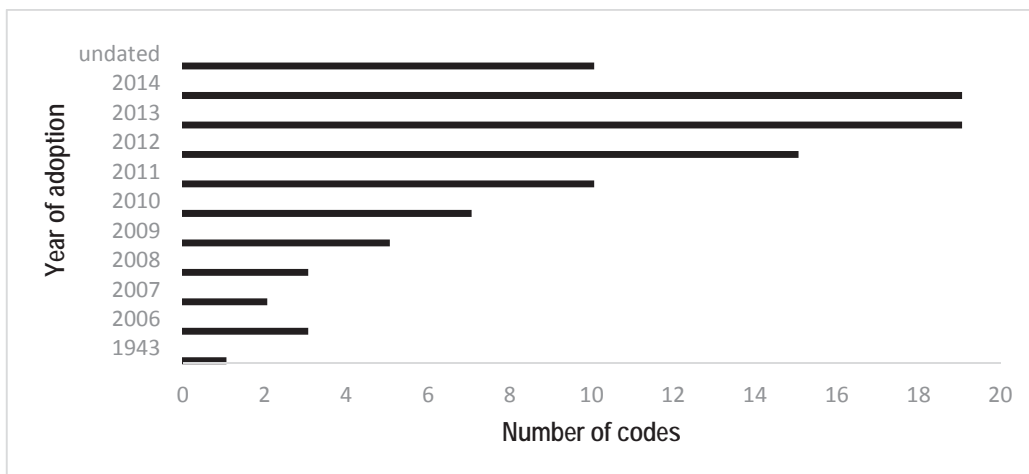


Figure 6.2 Year of Code Adoption

Importantly, many of the more recent codes clearly stated that they were revised versions of earlier codes as it was deemed important to update regularly.⁵¹ Figure 6.2 shows the

⁵¹ For example, *AbbVie*, a U.S. health care company, clearly states on page 4 of its Code of Business Conduct (no date) that its “policies and procedures are updated regularly to incorporate changes to the law, industry codes, and best practices.” *Lloyd*, a U.K. bank, also states that the code is reviewed annually to remain relevant.

year of code adoption by the sample global firms. It would appear that code adoption by these global companies has grown in the last five years. If the undated codes were included, the percentage of adoption would have been higher. This would suggest the growing trend and significance of corporate codes in contemporary business.

6.2.4 Code format, length, and title

The vast majority (94%) of the analysed codes were stand-alone (or separate) codes that were directly accessible from the company website. The remainder (6%) was embedded in the corporate governance section accessible through the Investor Relations segment of the company website or in their corporate social responsibility reports. The significance of a distinct, formal (self-contained) document specifying self-consciously ethical constraints on the conduct of organisational life (specifically claims to be guided by moral/ethical standards) gives the appearance of formalising the behavioural standards of a particular organisational culture (Weaver, 1993). It also differs from the amoral corporate policy documents signalling to the readers that the codes contain distinctive moral-laden behavioural standards and expectations intended for purposes other than the routine (employee) guidance (Weaver, 1993).

The length of the codes varied. It ranged from a one-page narrative (*Johnson & Johnson Credo*) to 80 pages (*BHP Billiton*) with the average length of 29 pages and the median length of 28 pages. With the advancement of graphic design and digital disclosure, many of the codes were presented in a mix of narratives and pictures/images with eye-catching colour schemes. The longer codes included detailed rules or standards of practice as well as numerous types of graphics.

The titles of the codes also varied considerably in terms of the choice of words, word order, and other minor features. The most favoured title was “Code of Conduct” with 34 out of the 94 companies (36%) adopting that title, followed by “Code of Business Conduct” (13 companies representing 14%) and “Code of Ethics” (11 companies representing 12%). The majority of the remaining codes used the word “conduct” and/or “ethics” in their title, or similar name with some variations of the words or in combination with other words. The variety of names included: “Code of Conduct and Ethics,” “Code of Ethical Conduct,” “Code of Business Conduct,” “Code of Business Ethics and Conduct,” “Business Code of Conduct and Ethics,” “Code of Ethics and

Business Conduct,” “Business Conduct Guidelines,” “Statement of Ethics,” and “Business Code.” There are also some unique titles such as “Credo” (*Johnson & Johnson*), “Integrity Code” (*Daimler*), “Corporate Compliance Policy” (*Bayer*), “Code of Business Responsibility” (Lloyds), and “Staff Code” (a bilingual production by *Sinopec*). Even though the word “ethics” did not feature in all the titles, the essence of the documents focused on principles, rules, and expectations related to ethics. Almost all the codes were directed towards employees (including managers) with the focus on providing behavioural guidance to preserving corporate reputation.

The above section has established the extent of code adoption by the 100 top global companies in the PwC list. Some descriptive statistics has been compiled to investigate the likelihood of code adoption in relation to such variables as industry (major activity sector) and market capitalisation (size); country; year of adoption; and format, length and title. The following section explains the relationships of the six broad thematic categories of code content. This laid the groundwork for later rhetorical investigation into the level of ethical content of corporate codes to determine whether they were designed to provide high level of guidance on corporate values in ethical issues or to convey law-based and predetermined resolution of what should be handled as moral dilemmas (Farrell & Cobbin, 1996).

6.3 A THEMATIC CONSIDERATION OF CODE CONTENT

The content of the 94 corporate codes and the ethics-related material produced by the other six Chinese and Japanese companies contained both narratives and images. The narratives (language) consisted of words “embedded with socially constructed definitions” (Long & Driscoll, 2008, p. 180) while images complemented the message of language (Davison, 2014). Since the technique of content analysis allows inferences to be drawn from a focal text to its social context in an objectified manner (Bauer, 2000) using a semantic procedure/semantic units of analysis – words, sentences, and larger text units, it helped to reveal the types of ethics the sample companies claimed to uphold as well as the responsibilities they proclaimed. The six broad thematic categories are: (1) Generality, (2) Values and Commitment, (3) Workplace Conduct, (4) Responsiveness to Stakeholders, (5) Compliance and Implementation, and (6) Tone and Style (see Table 5.1 and Appendix 5.2 for details of coding rules).

6.3.1 Generality

“Generality” is a broad categorisation on general matters pertaining to the corporate code. It served as the administration “hub” of the codes specifying the purpose, the authority, the compliance measures and sanctions, the CEO’s/Chairman’s supporting statement, and the importance of ethics to the corporate global community (Amernic & Craig, 2013; Beelitz & Merkl-Davies, 2012; Holder-Webb & Cohen, 2012). It also emphasised the need to use judgement in interpreting the stipulations of the code and pledges to make the code a living document adjusting according to changing environmental conditions (Verbos et al., 2007). In short, it acted as anchor to four of the other five categories, namely, “Values and Commitments,” “Workplace Conduct,” “Responsiveness to Stakeholders,” and “Compliance and Implementation.” Table 6.2 below summarises the major considerations related to “Generality.”

TABLE 6.2 *Generality*

Specific items	Included in code (%)
Purpose of code	94
Compliance measures and sanctions	91
Global presence	88
Authority of code	87
CEO/Chairman statement	71
Exercise of judgement	64
Continuous improvement (code improvement)	38

As shown in Table 6.4, 94% and 91% of the codes clearly stated the purpose of the documents and the presence of compliance measures and sanctions. These would suggest the importance placed in these items. Followed closely in significance were global presence (88%) and the authority (87%) of the codes. It is believed that endorsement by the Chairman or CEO is important in enticing the acceptance and use of codes; however, only 71% of the codes included a CEO/Chairman statement. Similarly, regular code update and revision is considered necessary to maintain the relevance of the codes (as mentioned previously in Section 6.2.3) and yet, only 38% of the codes were found to have done so. Sixty-four percent of the codes, however, reminded their readers (particularly the employees) to exercise judgement when interpreting the rules and procedures of the codes, bearing in mind the ever-changing environment.

6.3.2 Values and commitments

“Values and Commitment” is an integral part of corporate codes as it aims to inspire and promote commitment to the organisation’s core values, goals, mission, and philosophy. It is the crux of a “belief system” (Simons, 1995) articulating the values and directions that the companies want their employees to embrace. The values and commitments are concise, value-laden, and inspirational with the aim to promoting the key tenets of the business to create firm value while at the same time maintain a prosperous and harmonious working environment (Farrell & Cobbin, 2000). The set of business tenets necessarily envelops a wide spectrum to appeal to an array of internal and external stakeholders – financial (integrity and transparency in disclosure), social (education and training, open communication, and responsibility to society in general), and regulatory (compliance with pertinent laws and rules) as highlighted by Cressey & Moore (1983), Stevens, (1996), and Harvard Law Review (2003). Table 6.3 shows the results of the values and commitment the sample companies deemed desirable for all business conduct and outcomes. It would appear that all the sample codes had good coverage in this aspect with ten areas (“Compliance with laws,” “Responsibility to external stakeholders,” “Responsibility to employees,” “Values, norms and principles,” “Company goals, mission, and philosophy,” “Financial integrity,” “Responsibility to society at large,” “Responsibility to the environment,” “Corporate transparency,” and “Defining terms used for core values” attaining over 76% coverage. The fact that “Compliance with laws, rules and regulations” attained 97% coverage would suggest the emphasis on compliance as mentioned in Section 6.3.1 where there was 91% coverage in “Compliance measures and sanction.” This will be discussed further in Section 6.4.1.

TABLE 6.3 *Values and Commitments*

Specific items	Included in code (%)
Compliance with laws, rules and regulations	97
Responsibility to external stakeholders	96
Values, norms, principles	95
Responsibility to employees	95
Company goals, mission and philosophy	94
Financial integrity	90
Responsibility to society at large	88
Responsibility to the environment	81
Corporate transparency	78
Defining terms used for core values	76
Openness for dialogue	65
Education and training	65

The two areas that did not score well were “Openness for dialogue” and “Education and training” with both scoring a low of 65%. This would suggest that many companies were not concerned about open dialogue with their employees; nor were they interested in providing employees with education and training opportunities. These would be at odds with the pledged responsibility to employees (95%) as shown in the table.

6.3.3 Workplace conduct

“Workplace Conduct” was a manifestation of the core values and commitment of the organisation (Kaptein, 2004). It specified desirable behaviour that employees should assume both within and outside the organisation. In terms of internal conduct, it clarified what was expected of employees regarding their engagement with one another and their treatment of company resources. In terms of relationships with external parties, it offered advice in the use of information, the acceptance of gifts and entertainment, the services and products provided to the public, and the obligations to clients, customers, suppliers, and business partners. Table 6.4 summarises the guidance given by companies on workplace issues.

TABLE 6.4 *Workplace Conduct*

Specific items	Included in code (%)
Financial crimes	93
Confidentiality	92
Interpersonal relationships	91
Conflicts of interest	91
Use of company assets	90
Discrimination and harassment	87
Health and safety	87
Corporate security	87
Gifts and entertainment	86
Competition	84
Product safety and quality	81
Diversity and inclusion	81
Political activities	80
Human rights	72
Service quality	69
Substance abuse	41

It would appear that only three out of a total of 16 items in this category had an inclusion rate of less than 80% suggesting that most of the companies were seriously concerned about the identified issues. Topping the list was guidance given on “Financial crimes,” “Confidentiality,” “Interpersonal relationships,” “Conflicts of interest,” and “Use of

company assets” with a coverage of over 90%. “Human rights,” “Service quality,” and “Substance abuse” were the three areas receiving the least coverage with 72%, 69% and 41% respectively. Human rights and substance abuse are recent social issues in the corporate environment. In particular, human rights problems are widespread among global companies who employ a workforce of multiple ethnicities with various cultural norms and values. It would appear that two other related issues – “Discrimination and harassment” and “Diversity and inclusion” (87% and 81% respectively) might have eclipsed the coverage of “Human rights” issues (at 72%). These findings were not dissimilar to those found by Gaumnitz and Lere (2002), and Kaptein (2004).

6.3.4 Responsiveness to stakeholders

Corporate codes, despite their stated focus on employees, are arguably documents articulating the interests of stakeholders. Most corporate codes, whether extensively or concisely, pay attention not only to employees, but also to consumers, investors, society, and the natural environment (Kaptein, 2004). This phenomenon is the natural outcome of the increased call for improved corporate social responsibility for the ultimate common good (Fairfax, 2007; Garten, 2002; Harvard Law Review, 2003; Paine, 2003). Increasing concerns for labour rights, fair business practice, environmental stewardship and corporate citizenship have led to increased calls for transparency and accountability in the context of corporate governance with particular emphasis on workforce-related and ethical aspects (Bakan, 2004; Bloomfield & Murray, 2008; Bradley et al., 1999; Cragg, 2002; Dunfee & Donaldson, 1995; Joyner & Payne, 2002; Webley & Werner, 2008; Tapscott & Ticoll, 2003). Section 6.3.2 (Values and Commitments) reported significant code coverage of corporate responsibilities to external stakeholders, employees, society, and the environment. Section 6.3.3 (Workplace Conduct) related to the importance of cultivating employees’ honest and responsible behaviour among themselves and with significant external parties. The concerns with stakeholder interests are also supported by the findings in this category, as shown in Table 6.5. The table examines the responsiveness to stakeholders from two aspects – internal stakeholders (employees) and external stakeholders (shareholders, customers, suppliers, regulators, the community, and the environment).

TABLE 6.5 *Responsiveness to Stakeholders*

Panel A: Employees	Included in code (%)
Safe working environment	87
Employee rights (information, privacy & termination)	83
Non-retaliation and reporting of code violation	82
Equal employment opportunity	73
Employee self-development (education & training)	45
Panel B: External stakeholders	Included in code (%)
Other external stakeholder awareness	94
Support for political and charitable activities	85
Community commitment	85
Shareholder value	81
Environmental stewardship	80

As shown in Panel A, Table 6.5 (Employees), the codes paid substantial interest to “Safe working environment” (87%), “Employee rights” (83%), and “Non-retaliation commitment for reporting code violations” (82%). They were comparatively less supportive of “Equal employment” (73%) and even less for encouraging “Employee self-development” (45%). The lack of support for employee self-development would appear to tie in with the 65% support for “Education and training” found under the “Values and Commitments” section (Section 6.3.2). In comparison, all five items in Panel B (External stakeholders) of the same table received over 80% coverage. This declaration of support was not only towards shareholders, but also towards all other external constituents including the allowance for making political and charitable contributions ethically. Such responsiveness to stakeholder needs would suggest a focus on cultivating tangible impacts (monetary) and intangible corporate impacts (employee loyalty, corporate reputation, and legitimacy).

6.3.5 Compliance and implementation

Corporate codes, as a formal system of anticipating the inevitable temptations and pressures that may affect employee behaviour in the workplace, also “spell out the rules of the game” in light of the risks inherent in the strategy. They form part of risk management with the intent to set the boundaries for what is acceptable and what is not acceptable behaviour (Simons, 1995). In short, they aim to provide guidance on ethical behaviour and to allow resolutions of ethical conflicts when a doubt arises in light of pressures and temptations (Frankel, 1989; Kaptein et al., 2003; Kaptein, 2004; Weaver,

1993). Most of the sample codes had placed immense emphasis on code compliance and implementation throughout the document; some had reinforced their significance in specific sections under the various items of “Workplace Conduct.” This focus was clearly shown in Table 6.6 with 92% of the codes encouraging employees to report breaches of ethical rules and voicing their concerns. A similar percentage was found in the provision of resources to assist employees for this particular purpose. However, only 63% of the codes mentioned the monitoring and enforcement of the codes. While 79% of the codes explained the disciplinary measures for any behaviour not acceptable under the desired standards to signal clearly the consequences of stepping over ethical boundaries, only 59% actually mentioned that there were training facilities to familiarise the employees on ethical matters.

Despite the low coverage on training (see similar findings in Sections 6.3.3 and 6.3.4), most of the sample companies were keen to provide a robust compliance system to ensure their ethical targets. Employees were encouraged not only to seek guidance in case of ethical dilemmas but also to report misconduct. Supporting structures/channels were provided to encourage open discussion of employees’ concerns, interpretation of, and compliance with the code. Non-retaliation policy (see Section 6.3.4) was also put in place to ensure the reporting of deviant behaviour. In short, the majority of the companies provided a clear account of code implementation indicating various aspects of the process – monitoring, enforcement, and punishment.

TABLE 6.6 *Compliance and Implementation*

Specific items	Included in code (%)
Reporting on breaches/Voicing concerns	92
Assistance/Hotline/Resources	92
Disciplinary actions	79
Monitoring and enforcement (procedural)	63
Training (on procedural matters)	59

6.3.6 Tone and style

The tone and style used in corporate codes of ethics can play an important role in helping the corporations to achieve their goals. Code writers choose the appropriate language to create a tone suited to the purpose they want to convey (Bazerman & Prior, 2004; Johnstone & Eisenhart, 2008; Kaptein, 2004; Selzer, 2004). Without the aid of the

intonation of the speaking voice and facial gestures, the tone resides in the words chosen to express ideas and intent, to assume a particular attitude or position, and to evoke a particular mood. Tone and style are related because tone can affect the style of writing. Style involves the way information is presented, which also helps in conveying the meaning and intent of the writing. While tone conveys message/idea through attitude and mood, style supplements tone in enhancing or debilitating comprehensibility and readability of what has been written. Since some of the ethical concepts are abstract in nature, many codes have used specific layout, fonts, pictures, photographs, and other types of graphics to facilitate reader understanding of the complex messages related to corporate codes of ethics. Table 6.7 presents the results of “Tone and Style” of codes in two aspects: Panel A on the tone of code language and Panel B on the style of the codes.

TABLE 6.7 *Tone and Style*

Panel A: Tone of code language		Included in code (%)				
Authoritarian		92				
Personal address (Third-person perspective)		90				
Personal address (First-person perspective)		77				
Negative (predominantly prescriptive)		72				
Personal address (Second-person perspective)		60				
Engaging (more emphasis on encouraging/ inspiring)		19				

Panel B: Style of code language		Scale				
Comprehensibility (<i>ease of understanding</i>)	Extremely difficult (%)	Difficult (%)	Neither difficult nor easy (%)	Easy (%)	Very easy (%)	
	0	6	34	51	9	
Comprehensiveness (<i>attention to detail</i>)	Very brief (%)	Brief (%)	Neither brief nor detailed (%)	Detailed (%)	Very detailed (%)	
	1	15	27	41	16	
Use of comprehension aids (<i>pictures, graphics</i>)	None (%)	Some (%)	Moderate (%)	Extensive (%)	All-encompassing (%)	
	35	12	12	30	10	
Use of comprehension aids (<i>Q&As, FAQs, cases</i>)	None (%)	Some (%)	Moderate (%)	Extensive (%)	All-encompassing (%)	
	32	12	9	28	18	

The findings reported in Panel A showed that 92% of the codes were found to be authoritarian in nature, suggesting a tone of command with a strong emphasis on compliance with laws, rules, and regulations. This was reflected in the feel of “negativity” about code prescriptions where 72% of the codes were found to contain highly prescriptive language and regulatory outlook. Supporting these findings was the overwhelming use of the third-person personal address in codes (90%). This impersonal and neutral stance of code language suggested a social distance between the code writers and their audience. While there was a high usage of the third-person personal address, it

was also found that 77% of the codes used the first-person personal address and 60% of the codes used the second-person personal address. In most of these cases, the use of first-person and second-person addresses tended to be in a few focal areas, for example, the CEO/Chairman statements, the explanations of certain behavioural prescriptions relating to workplace conduct, and the comprehension aids such as the Q&As, the FAQs, and the case examples. This informal and personal stance would suggest the companies' attempts to ensure the messages were easier to be accepted.

Panel B reported the findings on the style of code content focusing on the presentation and comprehensibility of the codes. In terms of comprehensibility (ease of understanding), 51% of the codes were found to be easy reading, 34% were neither difficult nor easy, 9% very easy, and 6% difficult. In terms of comprehensiveness (attention to detail), 41% of the codes were found to be "detailed" (most probably with the rules and explanations). About 30% of the codes did not use comprehension aids in their codes and a similar percentage of codes used such aids to enhance their codes. For the latter, there was an even spread in the use of the pictorial-type (pictures, photographs, flow-charts, graphics, and narratives (such as Q&As, FAQs, and case examples).

This section has presented a general discussion of the specific issues embedded in the six thematic code categories of the 100 top global companies. As illustrated in Figure 6.3, the six categories were intricately related. The "Generality" category acted as the focal point administering matters pertaining to the code and providing directions to four other categories - "Values and Commitments," "Workplace Conduct," "Responsiveness to Stakeholders," and "Compliance and Implementation" while the "Tone and Style" category supports all five thematic units signifying the intent of code writers to evoke particular reactions or emotions from their audience. It would appear that corporations were going through three institutional isomorphic processes to attain organisational legitimacy. The behavioural prescriptions stipulated in the "Workplace Conduct" section and the procedural requirements of "Compliance and Implementation" were responses to the *coercive forces* of the institutional environment. The focus of "Values and Commitments," "Responsiveness to Stakeholders," and certain parts of "Generality" was a response to *normative pressures* to show conformance to social and cultural expectations as ethically responsible entities. These responses were reinforced by the use of tone and style adopted by the code language to ensure the success of persuasion. With

the commonalities displayed in most of the sample codes, it could be argued that the *mimetic processes* were pervasive.

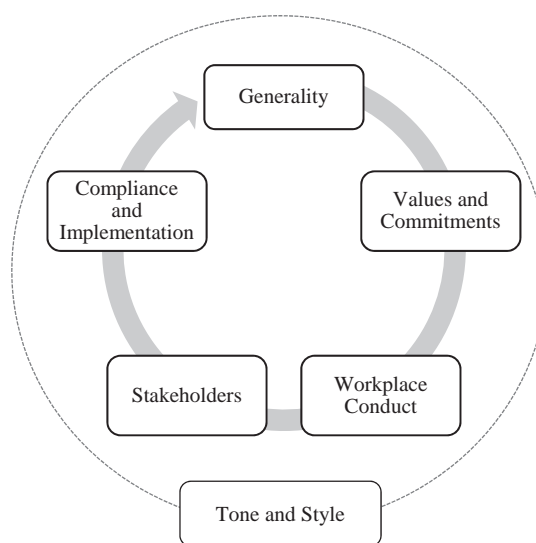


Figure 6.3 Broad Content Categories of Corporate Codes

It was found that almost all the codes were directed towards employees (including managers). Except for six Asian companies not listed on the major U.S. and European exchanges, all other companies had produced fairly up-to-date corporate codes having a reasonably high coverage of a range of topical business issues having certain ethical implications. The extent of issue coverage varied due to the unique circumstances of individual companies. The findings of the code content would appear to support Kaptein et al.'s (2003) observation that corporate codes served five internal functions (to orient, to explain, to steer, to correct, and to enthuse) and three external functions (to distinguish, to legitimise, and to correct).⁵² The following section presents the results of a rhetorical examination of these thematic patterns to ascertain the discourse of code language in the pursuit of corporate legitimacy.

6.4 A RHETORICAL ANALYSIS OF THEMATIC CONTENT OF CODES

In the scheme of discourse analysis, the thematic patterns of corporate codes gathered from the content analysis technique (which was presented in the previous section) tell only a partial story about the codes under study. According to Stevens (2009, p. 17), “content analysis usually does not discern subtexts and more subtle messages buried in

⁵² This was first introduced in Chapter 4, Section 4.2.3 and then discussed in more details in Chapter 5, Section 5.3.

text.” Similarly, Oosterhoff (2001) found that writings, literary or otherwise, often carried “hidden meanings” that needed to be contextualised. Rhetorical analysis was employed for this contextualisation to complete the partial story about the codes through its two complementary parts, textual analysis and contextual analysis (Selzer, 2004), and subsumed in them were the ideational, interpersonal, and textual functions of language (Halliday & Hasan, 1976). The *ideational function* explained the relationship between the content and the context of corporate codes; the *interpersonal function* explored the relationships between the code author and code recipients in light of the authorial intent; and the *textual function* ascertained the cohesiveness of code structure and organisation in communicating the meaning of the code (see Chapter 5, Section 5.5.3 for details of these three functions). To have a better understanding of what is being communicated, it is useful to have an appreciation of the circumstances where the communication emerges (Selzer, 2004) and to find out why the codes were phrased as such and who would benefit from them (Oosterhoff, 2001). This section aims to unravel the subtle messages or hidden meanings of corporate codes by delving into the use of code language as a discourse for communication in context. It contextualises the code/message by giving attention to the author, background of the discourse, and the recipients. The analysis addresses the two propositions posed in Chapter 5 concerning corporations’ rhetorical strategies to attain organisational legitimacy and restore public trust: (1) Corporate code adoption is a response to social and institutional pressures and expectations to (re)establish legitimacy, and (2) Corporate code language is used as a persuasive device to change stakeholder perceptions. The following sub-sections explain corporations’ strategies to (re)claim legitimacy and trust.

6.4.1 Corporate codes as a means to attain organisational legitimacy

Much has happened in the corporate world in the past few decades threatening the legitimacy of corporations and having a significant impact on their reputation. For example, these included price-fixing crises, environmental issues, employee-employer tension, and rising drug use in the 1960s; foreign payment crisis, human rights, and consumer issues in the 1970s; bribery, corruption, insider trading, and defence procurement and financial frauds in the 1980s; unsafe working conditions and exploitation of labour force in third-world countries in the 1990s; and cybercrime, environmental degradation, international corruption, and global financial crisis in the 2000s (Ferrell et al., 2011). Exposures of such critical incidents had led to a decline in

trust in corporations due to financial ruins and emotional turmoil suffered by the (investing) public (see Chapters 2 and 3). Realising that a lack of action in addressing the legitimacy issues could have dire consequences for corporate success and survival, the paramount concern of corporations appeared to be the self-preservation and the protection of their reputable image (Argandoña, 2004; Gillespie et al., 2012; Greif & Laitin, 2004). Such were the increasingly complex institutional pressures the sample companies had to face in the prevailing climate. Maintaining their reputation depended on the way they conducted their business and the way the public perceived that conduct (Wright & Rwabizambuga, 2006). As discussed in Chapters 4 and 5, organisational legitimacy is managed through three different but not mutually exclusive perspectives – pragmatic legitimacy, cognitive legitimacy, and moral legitimacy (Suchman, 1995). A functional commonality among these three perspectives is the belief that humans are largely conditioned by their environment and “respond in rather mechanistic ways to situations that they encounter in their external world in order to have legitimacy conferred on them” (Long & Driscoll, 2008, p. 177). Language, as a social construct, is being used in communicating such responses. The following sections analyse corporations’ use of code language under these three perspectives as a persuasive communication tool to restore/maintain public trust and attain legitimacy. It considers the contextual roots of the three aforementioned legitimacy perspectives through an analysis of the various functions of language in establishing a link between the text and the context of corporate codes.

6.4.1.1 Pragmatic legitimacy perspective

Proposition 1(a): Corporations whose claim to legitimacy is predicated on high levels of trust (that is, whose legitimacy is threatened) are most likely to produce corporate codes of ethics for strategic reasons.

In the process of rhetorically reading the information collected from the codes, it was found that the bulk of code content was constructed strategically. Pragmatic measures employed to attain legitimacy were found in four of the thematic units: “Values and Commitments” (see Section 6.3.2), “Workplace Conduct” (see Section 6.3.3), “Responsiveness to Stakeholders” (see Section 6.3.4), and “Compliance and Implementation” (see Section 6.3.5). These are discussed under the following headings: issue-driven, compliance-focused, and stakeholder appeasement.

6.4.1.1.1 Issue-driven

Contemporary macroeconomic conditions are characterised by intense competition, high uncertainty, and unfavourable prospects (Adler, 2001; Bakan, 2004; Berd, 2010; Davis, 2009; Nielsen, 2010). Large firms have great public visibility and are therefore subjected to intense external pressures to manage, or appear to manage, their ethics. As global firms, they operate over a great diversity of locales with great variations of local customs and therefore have a strong need to guarantee a common set of behavioural assumptions on the part of organisation members (Weaver, 1993). Their listings on major (and often, multiple) stock exchanges would suggest their dependence on the securities markets for financial resources. It is therefore not practicable to naively presume that firms invoke codes for morally driven reasons (Weaver, 1993). In addition, many of the sample companies in the nine sectors were known to have been embroiled in corporate governance scandals involving legal wrangles with employees/customers/consumers/the public over the years. For example, *Walmart* (a Consumer Goods company) has a long history of labour-related issues; *Verizon* (a Telecommunications company) has settled issues of worker discrimination. Oil & Gas companies such as *BP*, *Royal Dutch Shell*, and *Chevron* have been accused of and prosecuted for environmental irresponsibility. Industrials and Basic Materials companies such as *3M*, *Boeing*, *Siemens*, *Rio Tinto* and Health Care companies such as *GlaxoSmithKline*, *Merck*, *Pfizer*, and *Roche* were under suspicion of corporate crimes – bribery and corruption – involving drug manufacturing. Financial institutions such as *JP Morgan Chase*, *HSBC*, *Well Fargo*, and *Toronto-Dominion Bank* have also been involved in various types of irregular business conduct.

The negative publicity created by financial scandals, environmental disasters, and other indignities relating to consumer rights, human rights and workplace health and safety had exposed the failure of corporations to act in a manner which society considers normatively appropriate (Beelitz & Merkl-Davies, 2012). Coercive pressures (*formal* in the form of legislation and *informal* in the like of calls for ethics reform from other regulatory and interest groups) abound forcing corporations to reflect on their part in causing the legitimacy crisis and to make amends in the form of ethics betterment. The following were three excerpts from the sample codes of ethics expressing corporate responses to coercive pressures.

Walmart on “Leading with integrity in our workplace”:

Walmart is committed to a safe and healthy workplace for everyone (p. 10)... We believe in treating each other with respect, whether it’s a co-worker, supplier, customer, or anyone doing business with us ... We believe in maintaining a working environment free of violence or threats of violence (p. 11) ... in maintaining a healthy, respectful, and productive workplace, as well as protecting our stakeholders. (p. 12)

GlaxoSmithKline on ethics research and corruption:

We are committed to conducting human subject research to the highest ethical, medical and scientific standards in accordance with the principles of respect for people, patient benefit and justice. (p. 7)

GSK has zero tolerance towards bribery and corruption. We will not make, offer to make, or authorise payment to a third party (e.g., sales agent, distributor or intermediary) with knowledge that all or part of the payment will be offered or given to any individual to secure an improper advantage, obtain or retain business... We must demonstrate a culture of honesty and integrity in all that we do, and preventing and detecting fraud is a priority for all of us. (p. 9)

Walt Disney on teamwork:

Our Cast Members and employees are the cornerstone of our magic. We are committed to a work environment where everyone is afforded the dignity and respect that they deserve. We don’t allow any form of harassment or discrimination on the basis of race, religion, color, sex, sexual orientation, gender identification, national origin, age, marital status ... or any other basis prohibited by applicable law. (p. 10)

Such responses formed part of the findings of Table 6.4 “Workplace Conduct,” which highlighted 16 behavioural constraints/prescriptions on employee behaviour. Thirteen (13) of these were incorporated by over 80% of the codes, suggesting the level of seriousness companies regard the specific issues. Top of the list was “Financial crimes” (fraud, bribery and corruption) with 93% of companies including it in their codes, followed by “Confidentiality” (92%), “Interpersonal relationships” and “Conflicts of interest” (both 91%), and “Use of company assets” (90%). The next level of corporate workplace concerns were “Discrimination and harassment,” “Health and safety,” “Corporate security” (all 87%); “Gifts and entertainment” (86%); and “Competition” (84%). These were followed by “Product safety and quality,” “Diversity and inclusion” (both 81%), “Political activities” (80%), and “Human rights” (72%). Comparatively, “Service quality” (69%) and “Substance abuse” (41%) did not receive high coverage as the others. The attention paid to all these issues demonstrates corporate commitments to address issues that were the causes of public dissent and the decline of public trust. These behavioural prescriptions provided guidance with acceptable and prohibited behaviours within and outside of the organisations. These ethical rules were not laws but behavioural prescriptions.⁵³ They formed part of a variety of legitimating mechanisms to enhance

⁵³ For example, restrictions on gifts to employees, in which no employee, or any member of his/her immediate family, could accept gratuities or gifts (over a nominal value) from a supplier, customer, or anyone in a business relationship. Other examples included the prohibition of unethical marketing (products and services),

corporate reputation and restore trust as ethical organisations. Codes of ethics with a heavy focus on behavioural prescriptions was therefore a strategic move by corporations to communicate to stakeholders their response to the legitimacy threats and to signal that their new practices were congruent with society's values, norms, and beliefs. This could also be a reflection of the self-interested wants of corporations and their agents.

6.4.1.1.2 Compliance-focused

Closely related to the behavioural prescriptions are two types of compliance in the sample codes: (1) compliance with laws, rules and regulations, and (2) compliance and implementation of a set of behavioural rules. The first type of compliance, which had a 97% coverage in the codes (as shown in Table 6.3 “Values and Commitments”), focused on laws governing commerce, such as the U.S. laws (the FCPA, the *SEC Acts*, the *Equal Opportunity Act*, and the *Sherman Antitrust Act*, the SOX), the U.K. Bribery Acts, and any applicable laws and standards (such as the listing requirements of major stock exchanges and the Global Compact). The relevance of these laws and regulations was manifest in their implicit and explicit presence in relevant sections of the behavioural prescriptions. For example, under the FCPA, employees are forbidden to authorise, or condone the use of “off the books” record keeping, secret amounts, unrecorded bank accounts, “slush” funds, and falsified books. Similarly, antitrust (competition) laws have led to the establishment of corporate policy that prohibits entering into, or even discussing, any unlawful arrangement or understanding that affects pricing policies and terms upon which products and services are sold (Sanderson & Varner, 1984). This pledge of compliance was apparent from the following extracts from the sample codes.

AbbVie:

We are committed to ethical business practices everywhere we operate. This includes obeying all laws and regulations around the world (p. 4) ... respecting laws governing international trade. (p. 48)

Bayer:

Corporate compliance refers to the lawful and proper conduct of the company's business. Each employee is obligated to obey all applicable laws and corporate guidelines in his or her work for Bayer (p. 6)... Compliance is the only permissible course of action, even in a crisis. (p. 8)

General Electric:

Regulatory excellence (responsibilities of employees; responsibilities of leaders) ... comply with all export control, economic sanctions and custom laws that regulate cross-border transfers of goods and technology. (p. 9)

The second type of compliance is based on company policy (ethical rules) for the entire organisation. As illustrated in Table 6.2 “Generality,” 91% of the companies included compliance measures and sanctions in their codes, with 87% of these codes specifically identifying the enforcer(s) of the codes or referred to the specific person/department in charge.⁵⁴ This coverage was supported by the findings in Table 6.6 “Compliance and Implementation” which implicitly required members to go beyond the legal minimum and act responsibly in protecting the rights of others, with due regard for the well-being of society, customers, suppliers, management, fellow employees, and oneself in both legal area and non-legal area set up by the company policy. Within this system, there were well-defined procedures in reporting breaches and seeking assistance (92%). There were also disciplinary measures for any serious violation of laws and ethical rules (79%). Many of the codes (63%) contained explicit statements on how the codes would be monitored and enforced. In addition, there was mention about the availability of training on the procedural matters of compliance (59%), somewhat in line with the 65% coverage of “Education and training” in Table 6.3 “Values and Commitments.” The following quotes from the corporate codes could provide some insights about such guidelines.

Verizon:

It is not possible to describe all unethical or illegal business practices in detail. The best guidelines are individual conscience, common sense and unwavering compliance with all company policies, applicable laws, regulations and contractual obligations (p. 29) ... in maintaining a healthy, respectful, and productive workplace, as well as protecting our stakeholders (p.12) ... Verizon provides many resources to help you make ethical decisions ... In addition to your supervisor, you may consult with Human Resources, the Legal Department or call the VZ Ethics and EEO Guideline. (p. 30)

Siemens:

All employees must obey the laws and regulations of the legal systems within which they are operating in addition to applicable Siemens policies. Violations of the law must be avoided at all circumstances. Regardless of the sanctions that could be imposed by law, all employees guilty of a violation will be subject to disciplinary consequences because of the violation of their employment duties. (p. 6)

Nestlé:

Nestlé and its employees are bound by the law. Compliance with all applicable laws and regulations must never be compromised... employees shall adhere to internal rules and regulations as they apply in a given situation. Those internal rules are specific to the Company and may go beyond what is required by the law (p. 2)... It is each employee’s responsibility to ensure full compliance with all provisions of this Code and to seek guidance where necessary... Any failure to comply with this Code may result in disciplinary action, including the possibility of dismissal and, if warranted, legal proceedings or criminal sanctions... Employees shall report any practices or actions believed to be inappropriate. (p. 8)

⁵⁴ Different companies had different designated personnel or committee to enforce, monitor, and provide guidance on compliance matters. Most companies put in place a Compliance Team, e.g., *Roche*, *BP*, and *Commonwealth Bank of Australia*. Some established an Ethics Committee, e.g., *Walmart* and *Inditex*. Many codes, e.g., *BNP Paribas*, were written to echo regulatory requirements. The majority of codes had stated that if any part of the codes conflicted with applicable law, the law would apply.

6.4.1.1.3 Stakeholder appeasement

In addition to specifying the conduct expected of their employees, corporations also explicitly declared their responsibilities towards their employees and a wide range of external stakeholders. Table 6.5 identified two groups of stakeholders, namely, internal stakeholders such as employees and external stakeholders such as shareholders, suppliers, customers, business partners, the government, and society in general. Panel A of the table shows that the companies were concerned about “Safe working environment” (87%), “Employee rights” (83%), “Non-retaliation and reporting of breaches” (82%), “Equal employment opportunity” (73%), and “Self-development” (45%), although the level of concern for employee self-development was not as high as the other items. Panel B of the table shows corporations’ concern for external stakeholders in terms of “Stakeholder awareness” (94%), “Support for political and charitable activities” (85%), “Community commitment” (85%), “Shareholder value” (81%), and “Environmental stewardship” (80%). This high level of stakeholder responsiveness was on a par with the findings of Table 6.5 “Values and Commitment” where corporations pledged their commitment to external stakeholders (96%), employees (95%), society (88%), and the environment (81%) respectively.

Knowing that public perceptions or judgements are formed in the public domain, corporate legitimacy relies on communication by tailoring code disclosure to manage public impressions (Cho, Roberts, & Patten, 2010). The findings show an obvious redefinition of corporations’ relationship with their stakeholders. Tailoring the content of codes was therefore a pragmatic management device to promote trust in an organisation’s management – to persuade key constituents to consider managers to be trusted agents of their interests – to create economic value (shareholders, customers, and suppliers), as well as social value (employees, politicians, and community) and environmental value (environmental protection and preservation). Such stakeholder engagement was also a means to signal corporate change by persuading audiences that the organisation was re-aligning its structures and procedures with social norms and rules. The behavioural prescriptions (ethical rules) were structured in such a way to address the controversial issues that caused the loss of trust. The compliance systems acted as reinforcement mechanisms to ensure the adherence of such ethical rules. These were strategies “which make the organisation *appear* to respond to stakeholder concerns or *appear* to be congruent with society’s norms and expectations” (Beelitz & Merkl-Davies, 2012, p.

103). What followed was a selection of passages from the sample codes depicting the appealing attitudes of the corporations towards their stakeholders, both internal and external.

Roche's Commitment to Sustainability:

As a leading healthcare company, Roche's goal is to develop and make available products and services that address unmet medical needs and are of real value to society. We aim to provide tangible improvements in patients' health, quality and length of life – this is our core contribution to society. (p. 39)

Shell on "People and Safety":

Sustainable development for Shell means helping to meet the world's growing energy needs in ways that are economically, environmentally and socially responsible. Shell's commitment to sustainable development requires us to balance our short- and long-term interests; and integrate economic, health, safety, security, environmental and social considerations into business decisions. (p. 6)

JP Morgan:

To build long-lasting business relationships, we follow the law and treat our customers the way we would want to be treated ourselves – in an open, honest and respectful manner. (p. 10)

Each of us, at every level of the Company, shares a responsibility for preserving what we've built and honoring the people who have helped build it. It's not just about protecting our Company today, but also positioning ourselves for continued success. (p. 19)

Cisco:

An ideal workplace is one that is positive, creative and rewarding... an environment that promotes individual expression, innovation and achievement. That's the kind of workplace we have at Cisco. Employees are offered opportunities to grow personally and professionally. (p. 10)

In short, the pragmatic intent of codes is apparent in three aspects. First, corporate codes of ethics are produced to manage or respond to external stakeholders' demands or expectations to accrue benefits and avoid harm to the organisation. These external stakeholders include powerful groups such as the government and certain interest groups on whom the corporations depend for their existence. These stakeholders have the power and resources to introduce coercive measures, such as laws and regulations, to bear on the ethics of the corporations. In complying with these regulatory requirements,⁵⁵ corporations hope to convince regulators that their organisations or industrial sectors are both disclosure compliant and reliably self-policing. Second, codes can constitute a response to non-specific elements or issues in the broader business environment, for

⁵⁵ For example, these include the U.S. Defence Industry Initiative on Business Ethics and Conduct (DII) 1986, the *Federal Sentencing Guidelines for Organizations* (FSGO) 1991, the *Sarbanes-Oxley Act* 2002 (SOX), and the NYSE and NASDAQ listing requirements. The FSGO had made ethics code implementation financially important to any company which suspected that it might at some point intentionally or unintentionally transgress federal law. The effect of Section 406 of the SOX is to create both coercive pressures (arising from the passage of the regulation) and mimetic pressures (as Codes were required, but significant uncertainty existed as to what they should contain and how much they should constrain behaviour).

example, human rights, discrimination, substance abuse, political and charitable activities, environmental protection, and community efforts. This allows the corporations an opportunity to address particular topical social issues. Third, codes can provide an opportunity to clarify some internal issues such as intra-organisational roles and expectations, as well as project the values and beliefs of leaders. This can help to rationalise and/or legitimise some organisational actions. These codes thus have the characteristics of “compliance codes” with an inclination to be “inward-looking” as they tend to focus on employee-related internal procedural matters (Newberg, 2005). Yet, they are also somewhat “outward-looking” in their emphasis of good citizenship in terms of their concerns for society and the environment (Newberg, 2005).

6.4.1.2 Moral legitimacy perspective

***Proposition 1(b):** Corporations whose claim to legitimacy is predicated on high levels of trust (that is, whose legitimacy is threatened) are most likely to produce corporate codes of ethics to show it is the right thing to do (moral propriety).*

As highlighted in Section 6.2.4, the sample companies used a wide variety of names as titles of their codes. However, the more favoured words were “conduct” and “ethics.” Since the titles of codes of ethics could play a role in portraying the ethical image and stance of the company, the choice of such words gives the impression that the codes have been conceptualised as distinct, formal documents specifying the moral values that are expected to be embraced by members when conducting corporate affairs. In this sense, the codes would be perceived *not* as part of a corporation’s presumably amoral operating policy manual (Weaver, 1993).

Indeed, the language of corporate codes reflects managerial intent to attain moral legitimacy. Even though critics have been harsh in their judgement of corporate codes stating that their content is increasingly moving away from its moral foundation (Holder-Webb & Cohen, 2012; Long & Driscoll, 2008), it is still possible to see the efforts made by corporations to present themselves as ethical companies. A careful examination of code language reveals the normative forces, such as societal expectations for corporations to contribute to the common good, at work, as can be seen from the selected quotations from the sample codes at the end of this paragraph. Code language is carefully prepared by corporate agents to assert or ensure compliance and conformity, claim integrity, and (re)establish legitimacy. It is believed that large corporations with vast resources are able to maximise the appearance of ethical compliance.

Google:

“Don’t be evil.” Googlers generally apply those words to how we serve our users. But “Don’t be evil” is much more than that. Yes, it’s about providing our users unbiased access to information, focusing on their needs and giving them the best products and services that we can. But it’s also about doing the right thing more generally – following the law, acting honorably and treating each other with respect. (Preface)

United Parcel Services:

UPS has a long tradition of transforming and adapting to the needs of our customers, but our commitment to integrity remains steadfast... UPS people honored that trust... This requires us to conduct business fairly, honestly, and ethically... A commitment to integrity is about creating ... an environment where people can make good decisions. It is about doing the right thing in every business situation... (p. 1)

Amgen:

Doing the right thing is not always easy. Ethical behavior goes beyond compliance with the laws. One of the attributes that sets Amgen apart is that we do the right things, in the right ways. At times, we might sacrifice some immediate advantage, but in the long run, when we adhere to high ethical standards, we benefit our patients, our customers, our fellow staff members and our stockholders. (p. 1-1)

As illustrated in Table 6.3, the codes show commitment to promoting ethical behaviour by stipulating self-conscientiously ethical constraints on corporate conduct. Over 90% of the codes had expressed commitments to complying with laws, rules and regulations (97%), upholding ethical values, norms, and principles (95%), maintaining corporate core values and philosophy (94%), ensuring financial integrity (90%), and most importantly, pledging responsibility to external and internal stakeholders (96% and 95% respectively). Eighty-eight percent of the codes mentioned responsibility to society and 81% to the environment. At a lesser level, 78% of them showed support for corporate transparency, 65% for open dialogue with all concerned, and a similar percentage for education and training of various kinds. By making such pledges in addition to defining some behaviours as problematic and others as preferred, and by setting up a system to foster code compliance (e.g., monitoring and enforcement) (presented in the previous section), it could be construed that the conduct of corporate life was guided by moral/ethical standards.

Given their potential visibility and institutionalisation patterns in a market, code language helps to paint a convincing picture of corporations committed to organisational integrity. First, the high level of coverage shown in the compliance with local and international laws, rules and regulations, social and environmental responsibility, concerns for employees, and financial integrity reflects the response to coercive forces for pragmatic reasons (as discussed in Section 6.4.1.1). Second, the equally high coverage of the corporations’ commitment to moral values, rules and principles reflects the normative

pressures on disclosure strategies manifested in the conscious moral commitments to “do the right thing” to counter the self-interest of the agents and the organisation (as discussed earlier in this section). Social conformance ensures that corporations are doing what the public expect them to do and the construction of socially desirable structure provides the basis of moral conformance to social values and obligations. The social and cultural environment in which businesses operate requires them to be socially desirable entities taking into account the notion of a social contract. Codes of ethics are often used as the tool to articulate the notion of a social contract (Dunfee & Donaldson, 1995). Showing an affirmative responsibility to employees, society, and the environment is a fulfilment of the social contract through balancing the interests of various key constituents. This notion was clearly highlighted on page 2 of *BHP Billiton’s* code – “Working with integrity and maintaining our *social licence* to operate is fundamental to the way we work and to our success.... [Emphasis added.]

The well-being of external stakeholders would be in vain without appropriately developed internal organisational dynamics. Hence, corporations are committed to inculcating good behaviour – to do the right thing and as a corollary, to help prevent employee misconduct (as discussed previously in Sections 6.4.1.1 and 6.4.1.2). To promote an inclusive and supportive workplace and socially and environmentally responsible practices, corporate codes, as shown by the findings of Table 6.5, also express corporations’ willingness to be transparent, to engage in open dialogue with stakeholders, and to provide education and training opportunities to employees.

The typical corporate code tended to be a hybrid combining some general statements of the company’s commitment to broadly expressed moral principles of business conduct. Encapsulated by ethically-incensed phrases such as “acting with integrity” and “adhering to the highest ethical standards,” the sample codes, as shown in Table 6.3, generally fall under one or more of the following overlapping categories: (1) follow the law; (2) be honest; (3) be loyal to the company; and (4) treat all stakeholders with fairness and respect (Newberg, 2005). The powerful account of morality is based on discourse (Habermas, 1990). Thus a code of ethics communicates the importance of ethics by emphasising that the corporation takes ethics seriously and that ethical behaviour is a

necessary condition for doing business⁵⁶ (Kaptein, 2011). Legitimacy may likely be granted when either the goals being pursued by an organisation conform to social morals, or the procedures by which an organisation pursues its goals are deemed proper. Regardless of the approach favoured, moral legitimacy becomes normative insofar as organisations must continuously make conscious assessments of right versus wrong should they wish to act in ways prescribed to be appropriate (Suchman, 1995). Such conformance to established social values is seen as a necessary basis of social order (Scott, 2001). Strict accountability may prompt “a renewal of confidence, a revival of trust, and a recognition of institutional integrity that are, in combination, conditions precedent to sound financial markets” (Laufer, 2007, p. 443).

6.4.1.3 Cognitive legitimacy perspective

Proposition 1(c): Corporations whose claim to legitimacy is predicated on high levels of trust (that is, whose legitimacy is threatened) are most likely to produce corporate codes of ethics that exhibit convergence/homogeneity across organisations consistent with institutional pressures.

In an era of visible demands for improved business ethics, corporate codes of ethics have become the highly visible and institutionalised forms of organisational language (Weaver, 1993). It has been the norm for companies, particularly global firms as the 100 companies selected for this study, to adopt corporate codes for a variety of strategic or pragmatic reasons, such as reputational benefits, competitive advantage, enhanced profitability, access to resources, and restoration of public trust. Some of these pragmatic measures may be firm-specific and hinge on managerial attitudes and values. However, the structural makeups of corporate codes of ethics – the risk areas and the compliance systems – are often the key components in the codes of ethics that influence organisational culture and climate.

The structure and content of the sample codes have shown a high level of commonality, as can be seen from the thematic patterns of the sample codes presented in Tables 6.1 to 6.7. Detailed analysis also revealed substantial levels of common sentences and word choices as found by Forster et al. (2009), and Holder-Webb and Cohen (2012). This commonality in corporate codes of ethics could be explained in conjunction with the findings of the pragmatic legitimacy and moral legitimacy perspectives discussed in the

⁵⁶ Numerous sample codes highlighted the importance of this connection. Such emphasis was often made in the CEO/Chairman Statement.

previous two sections. Coercive forces have prompted corporations to legitimate themselves by prescribing behavioural constraints on issues of public concerns and putting in place an appropriate compliance system as reinforcement. Normative pressures have motivated corporations to conform to legitimate themselves by adopting prevailing social values as a necessary basis of social order. Mimetic pressures exist throughout the business community as the institutionalisation of corporate codes may constitute taken-for-granted linguistic or organisational forms (DiMaggio & Powell, 1983; Scott, 2014; Suchman, 1995). Some companies may adopt codes simply in mimicry of reputationally successful companies. There may be an implicit belief that codes are a normal, if not *de rigueur*, means for expressing corporate identity and standards. This is not surprising as the prevalence of corporate codes has seen the pragmatic legitimising measures become “reciprocal typifications” that allow for cognitive legitimacy (Scott, 2001).

Some code researchers have criticised the replication of language and the lack of originality in code content as boilerplate statements using a “cut and paste” template (Holder-Webb & Cohen, 2012) while others treat the replication as sheer plagiarism (Forster et al., 2009). The current study has found the codes using similar ethics-related phrases, common sentences, and content correlation, but not complete document duplication. The most common phrase among the codes is “to do the right thing” as an expression of moral propriety while the most frequently duplicated sentences are generally legalistic in tone. The latter is not unusual as companies of similar size, in the same industry, and listed on the same stock exchange have significantly higher chances of producing similar code content as they are subjected to similar pressures. It is often difficult to determine the original code (Holder-Webb & Cohen, 2012).

There may be several reasons as to why such mimicry occurs, including the need to conform to the external environment (that is, coercive forces such as regulation) and the role that competitive advantage plays in the process. The fact that corporations are more likely to have common codes of ethics is consistent with institutional isomorphic pressures on managers to conform. Organisations can become isomorphic (that is, more similar with other institutions) due to government mandates (DiMaggio & Powell, 1983; Forster et al., 2009; Long & Driscoll, 2008). Additionally, public companies producing “boiler-plate” codes of ethics are complying with the disclosure requirements of the SOX, the NYSE, the NASDAQ, and other exchanges having similar requirements.

Indeed, corporations develop internal structures “isomorphic” with external institutional pressures so as to be “perceived as desirable, proper, and appropriate with some socially constructed systems of norms, values, beliefs, and definitions” (Wright & Rwabizambuga, 2006, p. 90) to be conferred organisational legitimacy. Much code content is generic in nature with common ethics-related phrases, common sentences, and common topics of emphasis (as can be seen in the thematic units presented in Tables 6.2, 6.3, 6.4, 6.5, 6.6 and discussed previously).

The high levels of commonality in code content with the desire for legitimation achieved through content homogenisation (Bodolica & Spraggon, 2015) can be explained as follows. First, the business ethics movement started in the 1970s has heralded changing public expectations of corporations and forced corporations to publicly declare their commitments to integrating a wide variety of public interest concerns into corporate practices. Second, such a social movement has been intensified by repeated occurrences of major business failures that triggered a legitimacy crisis for many well-established economic institutions. Such corporate misconduct has invited greater regulatory and public scrutiny prompting corporations to demonstrate themselves as ethical entities with good “belief” and “boundary” systems (Simons, 1995) to constrain managers and employees from unethical conduct. Third, the early code adopters, particularly the prominent U.S. companies, have provided the “template” for code design and implementation. Since many corporations experience the same type of institutional pressures despite their firm-specific issues, it is considered unnecessary to “reinvent the wheel” when good models are available. This applies particularly to smaller firms which tend to engage in isomorphic behaviours to comply with the external regulatory environment (Forster et al., 2009). Fourth, some managers desire similar codes of ethics with other firms so that their organisations will not be seen as outliers. Finally, the design of codes is strongly influenced by regulatory pressures (Forster et al., 2009; Holder-Webb & Cohen, 2012), for example, by the mandatory requirements of the SOX, the NYSE, and the NASDAQ. These U.S. regulatory agencies have slightly different content and disclosure requirements for companies trading in the U.S. For instance, Section 406 of SOX requires companies to disclose publicly a Code of Ethics or to explain why they are not disclosing a code. This mandate had triggered the Securities and Exchange

Commission (SEC) and the major U.S. exchanges to follow suit. The NYSE (2004)⁵⁷ and the NASDAQ (2003)⁵⁸ subsequently issued regulations mandating that companies listed on their exchanges must have and provide to the public a Code of Ethics starting in fiscal year 2004.

In pre-SOX era, many companies voluntarily “jumped” onto the legitimization bandwagon of code adoption. Since 2004, companies have been producing “compliant disclosures” based on a similar template due to the listing requirements mentioned before. Mimicking is therefore commonplace. According to the institutional theorists, uncertainty in the environment combined with the presence of a visible first-mover that provides an action template for other organisations to follow has led to this homogeneity, replication, or boilerplate mode (DiMaggio & Powell, 1983; Scott, 1995, 2014; Suchman, 1995). This is a cognitive form whereby the adoption of organisational structures, processes, and behaviours occurs in ways that appear orthodox, comprehensible, logical and taken for granted (Scott, 2001). Legitimacy is achieved through cultural alignment and imitation of what is already deemed to be legitimate, without active agency by the organisation (Scott, 2001). Through isomorphism, organisations develop homogeneity of structure and come to resemble their environment and each other over time through the adoption of legitimated practices. Corporate codes could be such a structure whose adoption by organisations becomes successively and successfully replicated and accepted.

Despite being criticised for distancing themselves from their moral foundations (Long & Driscoll, 2008) and merely ritualistic responses to conform to social expectations, corporate codes appear to be a routine of practice with many common features (Forster et al., 2009; Holder-Webb & Cohen, 2012. See prevalence of codes in Section 6.2.2). It may be a typical managerial response to regulatory actions: complying with the letter of the law rather than with the spirit, or engaging in “box-ticking” behaviours, suggesting a culture that is more inclined to produce a compliant disclosure than a genuinely informative one (Holder-Webb & Cohen, 2012). This trend of “box-ticking behaviour”

⁵⁷ Section 303A of the NYSE is stricter and more specific than SOX as it requires a code for all company officials and employees to be reported on the company’s website. It is also more specific in terms of the topics that must be addressed, such as statements regarding “compliance standards and procedures.”

⁵⁸ Rule 430(n) of the NASDAQ mandates listed companies to adopt a code of conduct that “complies with the definition of ‘code of ethics’ as set forth in Section 406(c) of the *Sarbanes-Oxley Act*” and that applies to all directors, officers, and employees. The NASDAQ rules are also stricter and more specific than the SOX requirements. For example, they require the inclusion of an “enforcement mechanism” and a process for compliance and dealing with violations. Compliance was required by May 4, 2004.

clearly represents “a process of institutional isomorphism that leads over time to a convergence, and ultimately, to a homogeneity in behaviours among organisations within the field” (Holder-Webb & Cohen, 2012, p. 488), a process that sees the convergence in the content of corporate codes focusing on “form” rather than on “substance.” Even in “form,” there are some elements of moral content, which has been discussed in Section 6.4.1.2.

In sum, the adoption of codes of ethics is a conscious undertaking by corporations to demonstrate their ethical credentials and intentions through the use of language. This corporate representation of ethics, covered in claims of corporate responsibility and organisational integrity, forms the basis to (re)claim organisational legitimacy. Its emphasis on compliance undoubtedly is strategically-motivated (or self-interest driven) with the aim at corporate profitability, reputational benefits, or even survival. However, it cannot be denied that there are some hints that ethical standards and moral principles are the key to meaningful social existence. In addition, corporations are concerned with relationships among the group, that is, the social actors in the institutional environment suggesting that belongingness is essential to mutual existence. The following section addresses the second proposition – the rhetorical appeals corporations made to their audiences – to highlight the importance of the “interpersonal” and “textual” aspects in the pursuit of organisational legitimacy.

6.4.2 Corporate codes of ethics as a persuasive discourse

Previous discussion explained that codes of ethics are documents written in a specific language addressing mainly internal but also external stakeholders. This language communicates ethical values and guidelines of moral behaviour as well as statements and regulations pertaining to the codes. Codes employ certain language characteristics to create particular understandings among the individuals and groups, how they are interrelated, and how they should behave (Winkler, 2011). Some researchers are of the view that codes of ethics are impression management tools deliberately tailored to shape stakeholder perceptions (Cho et al., 2010; Yuthas, Rogers, & Dillard, 2002). Whether it is used in rhetorical manipulations or not, code language has the propensity to construct social relationships through a process of persuasion. Code authors (that is, the “persuaders”) strategically and consciously use code language to achieve a distinct purpose or purposes (Johnstone, 2008), such as the attainment of pragmatic, moral, and

cognitive legitimacy discussed in Section 6.4.1. Code language works to maintain a moral social order, such as socialisation and conflict resolution mechanisms, within the organisation (Laufer & Robertson, 1997). It also exercises responsible stewardship through member actions and products to enhance reputation and build trust among external stakeholders. Winkler (2011) observed that corporate codes of ethics were purposefully produced to influence both internal and external stakeholders. The following sections present the findings of the “rhetorical reading” of the sample codes using the three rhetorical concepts – *logos*, *ethos*, and *pathos*, to attain an understanding of the “purposefulness” and “persuasiveness” of code language.

6.4.2.1 Appeal to reason (*logos*)

Proposition 2(a): The language of corporate codes is produced in a sense-making and rational manner to persuade organisational audiences that the organisation is conforming socially and culturally.

Logos (Greek for “word”) refers to the internal consistency of the message, that is, the clarity of the claim, the logic of its reasons, and the effectiveness of its supporting evidence. The impact of *logos* on an audience is sometimes called the argument’s logical appeal (Brown et al., 2012; Selzer, 2004). In assessing corporate codes, it is necessary to ascertain whether their content presents a *logos*-based reasoning system.

As discussed in Section 6.4.1, corporate code adoption, particularly by large and successful organisations, is a response to the increasing coercive forces for ethics betterment in light of recurrent corporate malfeasance. Corporate codes are produced to signal to audiences that corporations are taking heed of public concerns (Adams et al., 2001; Connelly et al., 2011). With their carefully crafted rhetoric, corporate codes are consciously designed to persuade audiences to accept that their improved ethical initiatives are sensible, right, and good as they are conforming to social and cultural expectations. The argumentations that the codes take to appeal to the rational understanding of their audiences include: (1) claims of integrity, (2) ethical rules relating to public concerns, and (3) sound compliance systems enforcing the ethical rules. Section 6.4.1 has discussed three legitimacy perspectives of these positions. The following ascertains the ethical appropriateness of code language with some examples from the sample codes.

First, there is ample evidence of normative formulations of principled business conduct

in the sample codes. From the CEO/Chairman statement to the individual ethical rules (behavioural prescriptions), the audience was constantly reminded that the company was acting with integrity and adheres to the highest ethical standards.⁵⁹ Ninety-five percent of the codes had used the word “integrity,” 87% the word “trust,” 72% the word “honesty,” and only 39% the word “fair.” Very often, these terms were used in conjunction with core corporate values. Such claims of ethics made by corporate leaders, the expressed willingness to enter dialogue with stakeholders, and the pledge to look after communities and the environment were carefully crafted rhetoric to impress the audience of the ethical stance of the corporations that they always had the welfare of their constituents at heart. As an example, ANZ made the following pledge:

ANZ aims to deliver superior long-term total shareholder return, taking proper account of employees, customers and others with whom we do business as well as the communities and environments in which ANZ operates.

In striving to achieve these aims, we should not compromise our ethics or principles. ANZ places great importance on honesty, integrity, quality and trust. (p. 3)

Second, the inclusion of a comprehensive set of ethical rules (behavioural prescriptions) for employees (see Tables 6.4, 6.5, and 6.6) indicates that corporations are responding to stakeholder demands by taking the initiative to encourage appropriate corporate conduct to prevent the recurrence of scandalous incidents in the future. The rules/guidelines served a regulative purpose; they included a wide range of risk areas such as financial crimes, confidential information, conflicts of interest, interpersonal relationships, shareholder value, gifts and entertainment violations, corporate social responsibility, human rights, and others. For example, the 3M code was expressed as follows:

3M’s Code of Conduct is comprised of our core business conduct principles that set forth global corporate expectations for all 3M employees...

3M’s Code summarizes key compliance principles, highlights issues that can have significant legal and ethical consequences if handled improperly, and provides guidelines for appropriate action.

3M’s Code provides rules and guidelines to help 3M People make good decisions every day, in ways that advance 3M’s business and honor 3M’s tradition of ethical business conduct. (p. 5)

Third, the presence of a compliance system helps to convince the audience that procedures are set in place for reporting and disciplining violations, with good resources as support. A robust system with meaningful oversight and enforcement by personnel

⁵⁹ This information was sourced from additional content analysis of the codes focusing on the use of the specific words – integrity, trust, honesty, and fair(ness).

who take their ethical responsibilities seriously is likely to increase code effectiveness in promoting sound ethical behaviour, avoiding legal and economic risks, and boosting stakeholder confidence. As *Bayer* explains,

Corporate compliance is not an abstract concept, but a code of behavior that applies to everyone. It is valid for employees at all levels, in all parts of the Bayer Group and in all countries.

Only by strictly adhering to these standards can we avoid significant legal and economic risks to our company, and thus to us all. And in this way we also preserve the legitimate interests of all our stakeholders – including customers, suppliers and shareholders – and respect the needs of society, such as the protection of people and the environment. (p. 3)

Logos aims to convince audiences by using facts to back up a claim. As can be seen from the examples above, corporate code rhetoric openly addresses the unethical business and social issues, specifies desirable behaviour, prescribes possible consequences in the case of misconduct, and most importantly, makes declarations of an ethical responsibility towards various stakeholders. Such acts of ethical commitment and responsibility may lead stakeholders to accept the validity and legitimacy of the claim of ethics improvement. After all, audience perceptions are likely to change favourably in light of “the desirability and appropriateness of organisational actions within a socially constructed system of norms, values, and beliefs” (Suchman, 1995, p. 574). This appeal to rational commitment can also make the code authors appear knowledgeable, thus enhancing their authority (that is, *ethos*), the subject matter of the next section.

6.4.2.2 Appeal to authority (*ethos*)

Proposition 2(b): *The language of corporate codes is endorsed by key management to show social and cultural conformity.*

Ethos (Greek for “character”) refers to the trustworthiness or credibility of the author (Brown et al., 2012; Selzer, 2004). *Ethos* is used to persuade audiences by either appealing to the authority of the writer, the authority of another social actor, or the authority of the law. In the case of corporate codes, the appeal lies in the authority and credibility of the author. *Ethos* is often called ethical appeal conveyed through (1) tone and style of the message, and (2) the way the author refers to differing views. In corporate codes, the ethical appeal of corporate codes mostly comes from the CEO/Chairman statement. In the current study, 71% of the codes included such a statement (See Table 6.4). Even though these CEO/Chairman statements occupied only a small part of the code, they were too important an item to be ignored and brushed aside

as mere rhetoric. They represented appeals to the authority, credibility, or trustworthiness of the highest authority in the organisation. Table 6.8 presents some excerpts from a few of the sample codes in this aspect.

TABLE 6.8 *Excerpts from CEO/Chairman Statements*

COMPANY / CEO	EXCERPTS
American Express <i>Kenneth I. Chenault</i> <i>Chairman & CEO</i>	<p>At American Express, we've built strong, lasting relationships with our customers, partners and merchants through the decades by earning their trust, providing outstanding service and being committed to acting with integrity in all that we do. This is more important now than ever before, as corporate business practices are increasingly scrutinized and regulation of our industry intensifies...</p> <p>Our Company's success depends on ensuring that we continue to hold ourselves to the highest ethical standards...</p> <p>Please join me in renewing our commitment to protecting and strengthening our Company's most important attribute—our reputation for integrity, which is at the heart of the American Express brand.</p>
BHP Billiton <i>Andrew Mackenzie</i> <i>CEO</i>	<p>We are successful when:</p> <ul style="list-style-type: none"> our people start each day with a sense of purpose and end the day with a sense of accomplishment. our communities, customers and suppliers value their relationships with us. our asset portfolio is world-class and sustainably developed. our operational discipline and financial strength enables our future growth. our shareholders receive a superior return on their investment.
Home Depot <i>Frank Blake</i> <i>Chairman & CEO</i>	<p>Doing the right thing each and every day for the benefit of our associates, customers, vendors, suppliers and the communities we serve is critical to our ongoing success...</p> <p>If you are faced with a situation where you think our Company values or compliance with the law may be in question, you should bring this to the attention of your immediate manager or supervisor...</p> <p>Working together, we will maintain our values and ensure the success of The Home Depot.</p>
Microsoft <i>Satya Nadella</i> <i>CEO</i>	<p>Our focus, simply put, is to help our customers and partners thrive in a mobile-first, cloud-first world.</p> <p>Living in a mobile and cloud-first era means asking people and organizations to trust us with their information and data.</p> <p>Trust is paramount in how we operate and conduct business with individuals, companies and governments. We build and maintain trust through our shared commitment to ethical behavior and by acting with honesty and integrity.</p> <p>All Microsoft employees are responsible for understanding and complying with the Standards, Microsoft policies, laws, and regulations. We all have a responsibility to raise compliance and ethics concerns, and we want to hear from you if you have a concern.</p>
Proctor & Gamble <i>A.G. Lafley</i> <i>Chairman, President & CEO</i>	<p>P&G does the right thing, and that's why consumers, customers, shareholders, business partners, government and community leaders, and other stakeholders admire and trust us in virtually every part of the world. The decision we make and the business pressures we face are more complex than ever before. Externally, trust in large institutions is on the decline. Everything we do – every action we take – adds to or subtracts from our reputation.</p>
Royal Dutch Shell <i>Peter Voser</i> <i>CEO</i>	<p>As we strive to improve our performance in a fast-changing, competitive world, we should always remain true to our core values and the SGBP. They are a bedrock of our success, through tough times and good times.</p> <p>The Code of Conduct will help you live by them. The Code acts as a compass, helping you navigate the sometimes difficult choices you face in your work at Shell. It provides solid principles for you to follow.</p> <p>And it shows you what to do when a situation is complex and the way forward is hard to find.</p>

The few examples in the above table can help to draw some conclusions about the significance of CEO/Chairman statements in corporate codes. First, the presence of a CEO statement adds credibility and trustworthiness to the code. It signals an

endorsement of the code by the highest authority of the corporate hierarchy. This brings some “clout” to the code document (Amernic & Craig, 2000) not only in shaping public perception, but also in creating ideology impacting on the way the organisation is run because code discourse involves complex communicative acts with symbolic, emotional, cultural and political overtones (Amernic & Craig, 2001, 2013). Second, CEO/Chairman statements represent organisational rhetoric, not individual rhetoric (Castelló & Lozano, 2011). They define corporations’ strategic directions in conjunction with corporate core values, ethical initiatives, mission, and vision. As such, they assist in fulfilling fundamental strategic and accountability functions by introducing stakeholders to a complex document, the code (Patelli & Pedrini, 2014). Third, as initiator and producer of the code, it can be assumed that the CEO/Chairman knows what the right approach is for his/her company and what the correct set of regulations that ensures the moral behaviour of the company. Therefore a code endorsed by the CEO/Chairman can be trusted because it defines the ethical reality of the company. Fourth, when the CEOs/Chairmen present themselves as trustworthy, knowledgeable, and truthful people endorsing the codes, they are likely to influence stakeholders’ judgement and obtain some mutual understanding and cooperation through a common vision for the organisation. The next section discusses how the language/text of corporate codes appeals to the emotions of audience.

6.4.2.3 Appeal to emotion (*pathos*)

Proposition 2(c): The language of corporate codes is presented in such a way as to appeal to the emotional experiences of stakeholders.

Pathos aims at influencing audience attitudes by evoking an emotional response. In some places, it involves the use of emotive language, avoids negatives, and neutralises or euphemises certain terms; conversely, in other places, it emphasises the use of negative language (Pollach, 2003). Appeal to *pathos* causes an audience not just to respond emotionally but to identify with the code author’s point of view, that is, to feel what the author feels. In this sense, the impact of the message on an audience lies in the power with which the author’s message moves the audience to decision or action. A rhetorical scrutiny of the code language of the sample codes reveals that there are at least three ways to appeal to the emotions of the audience. They are: the collegial approach, the empathic approach, and the authoritarian approach. A large number of the codes sampled adopted a mixture of these approaches.

The “collegial approach” is prominent when code writers wanted to emphasise the loyalty, honesty, and responsible behaviour of internal stakeholders (including all levels of employees) (Winkler, 2011). They treated everyone as being equal when talking about collective responsibility to the organisation. In these occasions, they used words and phrases such as “we” and “us” ostensibly treating all persons employed as an integral part of the corporate community. This downplay of hierarchy appeared to emphasise the “family” atmosphere literally elevating ordinary employees to a similar level as the key executives. All members of the organisation, regardless of social status, were expected to play an active part in enhancing corporate responsibility by conducting their affairs ethically and responsibly. This collegial attitude was commonly reflected in CEO/Chairman statements when the senior executives addressed the employees in a most friendly manner. Personal pronouns such as “I,” “we,” and “you” were used profusely to suggest this closeness.⁶⁰ This phenomenon resonates what Burke (1969) describes as “inducing cooperation.” Examples can be found in the following:

McDonald’s President and CEO – Don Thompson:

I am proud to be part of this great System, whose reputation continues to build on the strong culture and common set of values Ray Kroc and Fred Turner established more than 50 years ago... Our customers have high expectations of us, and I know that we have even higher expectations for ourselves. As ambassadors for McDonald’s, it’s up to us to ensure the Golden Arches always shine brightly.

GlaxoSmithKline’s CEO, Andrew Witty:

There is no higher priority for me, as CEO of GSK, than the values-based conduct of our employees and our company. I want to lead a business where every single employee feels proud of their achievements, because they work hard, they achieve the unimaginable, and they do it the right way... In the last few years, we have focused on bringing to life our values of transparency, respect for people, integrity and patient focus and being thoughtful about what they really mean at a human level. I know that you share my desire to work for and build a business that has a spirit, a heart; a business that is guided by more than just money.

Another approach showing the “caring” side of corporate codes is the “empathic approach.” This approach was more prevalent in codes that employed visual images to substantiate code content by means of comprehension aids such as photographs, pictures, Q&As, concrete examples, and other graphics, as shown in Panel B, Table 6.7. The current digital era has facilitated the profuse use of visual images in corporate communications (Davison, 2010). Relaxed group poses,⁶¹ graphic depictions⁶² and

⁶⁰ Panel A, Table 6.7 (Tone of code language) found that 77% of the codes addressed their audience using first-person pronouns and 60% of the codes did so using second-person pronouns.

⁶¹ Many codes provided such a feature, e.g., *BP, Home Depot, L’Oreal* and *Walmart*.

⁶² In addition to photographs, many codes used graphics to illustrate difficult concepts. This was most common among the Oil & Gas companies (*BP, Royal Dutch Shell, Schlumberger, and Total*), Consumer Goods

flamboyant promotional images⁶³ are just some examples of the increasingly popular image management culture. Graphical representations have a visual power of captivation (Davison, 2010). In the past, the business élite was an enigma. In contemporary society, it is the mainstay of trust. Presence and visibility are vital in order to build up that capital of trust (Davison, 2010). The sample codes had all these features. CEO/Chairman statements (together with some seemingly uncontrived passport style photographs), vital narratives, pictures, and other graphics were all there to persuade readers to that effect. Obviously, “visual rhetoric” has a more powerful place in cognitive memory than printed words as it assists in communicating complex messages with simplicity (Davison, 2010). Other important features of visual images include the ability to arouse emotions, facilitate understanding, focus attention, and most importantly, enhance recall. Images have a strong psychological impact and therefore constitute an even more powerful way of persuasion than words.

As shown in Panel B, Table 6.7 (Style of code language), 51% of the sample codes were found to be “easy to understand.” They were reasonably detailed (41%), and supplemented extensively with two types of comprehension aids – graphics (30%, such as pictures, photographs, and charts) and narratives (28%, such as Q&As, FAQs, and case examples). Table 6.9 shows the correlation matrix for the 100 sample companies. This study employed the Pearson Correlation test to show the inter-correlations among four variables for all the sampled codes in regard to their style of delivery – code comprehensibility (ease of understanding), code comprehensiveness (attention to details), and two types of comprehension aids – (1) graphics, pictures, photographs, charts; and (2) Q&As, FAQs, cases, and case examples. It would appear that the inter-correlations of the four variables were strong and statistically significant. This would suggest that comprehension aids were useful in enhancing the understandability of some of the abstract or more difficult concepts in corporate codes. However, the codes also displayed a not-so-collegial stance in the form of an “authoritarian approach.” This is discussed in the next section.

companies (*Daimler, Pepsi Cola, Proctor & Gamble, and Toyota*), and Consumer Services companies (*CVS, McDonald's, and Walt Disney*).

⁶³ This was prevalent among the financial institutions (such as *HSBC and Lloyds*), Consumer Goods companies (such as *Pepsi Cola and Proctor & Gamble*), and Basic Materials companies (*3M, BHP, and Siemens*).

TABLE 6.9 *Correlations – Comprehensiveness, Comprehensibility and Comprehension Aids*

Pearson correlation	Comprehensibility (<i>Understanding</i>)	Comprehensiveness (<i>Details</i>)	Comprehension aids (<i>Graphics, pictures</i>)	Comprehension aids (<i>Q&As, FAQs, cases</i>)
Comprehensibility (<i>Understanding</i>)	1	.764**	.593**	.658**
Comprehensiveness (<i>Details</i>)	.764**	1	.679**	.757**
Comprehension aids (<i>Graphics, pictures</i>)	.593**	.679**	1	.886**
Comprehension aids (<i>Q&As, FAQs, cases</i>)	.658**	.757**	.886**	1

** Correlation is significant at the 0.01 level (2-tailed).
n = 100

6.4.2.4 From persuasive to authoritarian position

Proposition 2(d): The language of corporate codes is presented in such a way as to communicate a strong sense of obligation.

The “authoritarian approach” was most noticeable in the rules and regulations sections – behavioural prescriptions and compliance procedures where the demands/expectations of the corporations were clearly stated and employees were to be “passive receivers” of code instructions. All personnel, particularly the employees, “have to know, to accept, and to follow the numerous standards described” (Winkler, 2011, p. 659). The personal addresses used in this section were also different as many of the rules were in the third-person,⁶⁴ indicating an impersonal stance and suggesting some social distance between the rhetor (that is, the company) and the rhetee/addressees (that is, the employees). Linguistically, the codes made profuse use of modal auxiliaries such as “should,”⁶⁵ “must,”⁶⁶ and “shall.”⁶⁷ While “must” and “should” suggest a strong sense of obligation, “shall” expresses a command or exhortation also suggesting duty or obligation. The use of the imperatives also intensifies this passiveness by suggesting to the addressees “the gravity and seriousness of the rules within the text as well as the importance and significance of obedience to them” (Young, 2003, p. 637). In short, the code language used by these sample codes gave the impression that *pathos* appeals of codes had the tendency to create a mixed feeling of emotions – fear and guilt – among the addressees.

⁶⁴ As shown in Panel A, Table 6.7 (Tone of code language), 92% of the codes were found to have assumed an authoritarian tone and 90% of them used third-person pronouns.

⁶⁵ Ninety-two (92) percent of the codes used this word with the Consumer Goods sector (such as *British American Tobacco, Philip Morris, L’Oreal, Proctor & Gamble, and Walmart*) and Health Care sector (such as *Merck and Bristol-Myers Squibb*) using the most.

⁶⁶ Ninety-five (95) percent of the codes used this word with the Oil & Gas sector (such as *Royal Dutch Shell, Qualcomm, Chervon, and ConocoPhillips*), Health Care sector (such as *Bristol-Myers Squibb, Merck, GlaxoSmithKline and Pfizer*), Financials sector (*Toronto-Dominion Bank of Canada, American Express, Royal Bank of Canada, Wells Fargo, and Citigroup*), and *BHP Billiton* using the most.

⁶⁷ Comparatively, only 45% of the codes used this word, with two Spanish companies (*Banco Santander and Inditex*) using it extensively.

Fear related to the risk of disciplinary actions (due to misconduct) and the loss of job security (for non-compliance) while guilt applied to a broader sense – the risk of tarnishing the good reputation of the organisation or causing its demise.

The previous sections have looked into both the “soft” and the “hard” approaches to persuade code audiences of the validity and legitimacy of corporate ethical actions. Unquestionably, the corporations wanted to foster a desired ethical organisational culture. The style of the code, through word choice and tone, can significantly influence the audiences’ impression through the attitude assumed by the writer. When taking both the form and the content of the message into consideration, it is apparent that the style and diction of the codes would lead to a mixture of responses from their audiences. First, most codes arranged their content of codes in such a way as to provide both an emphatic opening and an emphatic ending. The placement of the CEO/Chairman statement at the front of the code is significant as it serves to set the tone in appealing to the audiences’ trust. It is also an indication of authority justifying various key components of the code such as core values, ethical rules, compliance procedures, and the resources available. Second, the language structures used in the sample codes tend to give a message of disempowerment, contrary to corporate codes’ intent to engender an ethical corporate culture (Farrell & Farrell, 1998). Despite the friendly addresses in certain parts of the codes, most employees would perceive codes to be structures that communicate a strong authoritarian tone that do not give them any discretion in decision-making (Farrell & Farrell, 1998; Winkler, 2011). They would see codes as tools used by senior management to maintain power relationships and exert control over them, not appeals to their morality or any sort of empowerment. As such, the authoritarian tone tends to eclipse the friendly and empathic approaches giving the impression that employees are neither empowered nor morally enlightened. Employees are treated as passive receivers of rules and regulations especially when the codes issue strong requests for action using expressions such as “shall observe,” “must,” and “should.” However, codes might appeal to external constituents as valuable, appropriate, useful, and politically correct corporate disclosure (Yuthas et al., 2002).

Discussion in earlier sections has established that the purpose of code adoption is to respond to societal expectations of good corporate citizenship. Legitimacy crisis had threatened the survival of corporations prompting them to develop codes of ethics to

form or reinforce their ethical behaviour to (re)gain public trust. Thus, the design of corporate codes focuses on addressing issues deemed beneficial to public interest. They include rules on appropriate corporate conduct, a robust compliance system, explicit commitment of ethical values and principles, and responsibilities to various stakeholders – sound topics that emerge from logical reasoning (*logos*). The CEO/Chairman, in his/her position as the leader of the company, endorses the content of the code to persuade stakeholders of code legitimacy and reasonableness so as to attain social identity (*ethos*). These are also emotional appeals to stakeholders' emotions encouraging them to come to a mutual understanding with the organisation's ethical initiatives through accepting social obligation (*pathos*).

Indeed, the adoption of corporate codes of ethics is a means to attaining organisational legitimacy and the language of the codes is the vehicle of persuasion to achieve this end. The genre of a text creates certain expectations concerning the appropriate combination of the ways of appealing to the audience. The appeal to reason (*logos*), often associated with the rational calculation of means and ends (Brown et al., 2012; Nørreklit, 2003; Selzer, 2004; Suddaby & Greenwood, 2005) used by corporations as a self-justification of their conformity to legal and quasi-legal rules, is a strategic rhetoric orienting toward pragmatic legitimacy. The appeal to character and trustworthiness (*ethos*) serves to build cognitive legitimacy using a “top down” approach to guide employee behaviour by imposing a prescriptive and obligatory dimension into organisational life.⁶⁸ The appeal to emotions (*pathos*), which reinforces social obligation by working on internal audience's emotions (fear or guilt) to conform, aims at achieving moral legitimacy through a sense of social obligation (Fairclough, 2003).

Table 6.10 shows the relationships between the various perspectives of legitimacy and rhetorical appeals in the institutionalisation of corporate codes of ethics. Cohesion of code content is vital to assessing the soundness of persuasion or argumentation. Most people view code adoption favourably regarding it as corporations' initiative to improve their ethical standing in conformance with societal expectations. However, with the transient nature of corporate reforms that follow spates of “unprecedented” scandals every decade or so, many critics of codes are not convinced that this adoption is of any substance but often empty rhetorical statements that accompany reforms (Laufer, 2007).

⁶⁸ Externally, cognitive legitimacy is achieved through using similar template in code production.

Some of them have regarded it as an organisational façade giving the appearance of closer alignment to the prevailing values and interests in society. Thus code adoption could be, as illustrated by Ashforth and Gibbs (1990), “the double-edge of organizational legitimation!”

TABLE 6.10 *Rhetorical Strategies and Legitimacy in the Institutionalisation of Corporate Codes*

CONTEXT	Rhetorical strategy (TEXT)			Role of legitimacy (PERCEPTION)	
	Content	Appeal	Tone & style	Perspective	Message
Exogenous forces Endogenous forces	Moral values Behavioural rules Compliance Stakeholder focus	<i>Logos</i> (<i>logic</i>)	Authoritarian Empathic Collegial	Pragmatic	Conforming to coercive forces (<i>Expedience</i>)
	CEO endorsement	<i>Ethos</i> (<i>authority, character</i>)		Cognitive	Conforming to socio-cultural expectations (<i>Social identity</i>)
	Particular word choice	<i>Pathos</i> (<i>emotion</i>)		Moral	Conforming to normative pressures (<i>Social obligation</i>)

6.5 CHAPTER SUMMARY

This chapter has presented the results of a study conducted on the contents of the code of ethics and ethics-related material of 100 top global companies from nine major industries representing the broad stratum of business. Due to their large economic size and high visibility, they were and could be easy targets of public controversy. The aim of the *micro*-text analysis of the discourse of corporate codes of ethics was to determine how corporations employed code language to create organisational legitimacy in light of the strong institutional pressures for corporate ethics reforms.

A high percentage (94%) of the sample companies had adopted corporate codes. Most of them were listed on the major U.S. and/or European stock exchanges, and many of them were companies with headquarters around the globe. The non-adopters were companies listed on the Chinese stock exchanges (for example, SSE and SEHK) and the Tokyo Stock exchange who had different disclosure requirements. Content analysis of the codes showed similar thematic patterns covering both common ethical problems and industry-specific issues. Even though there were some international differences in ethical policies (Scholtens & Dam, 2007), the trend of globalised business had somewhat “homogenised” practices as global companies faced similar problems both within and outside their

workplace. The major dilemmas arising in ethical matters normally involved a conflict of rights, obligations or objectives for oneself and/or others, and a clash of personal, organisational, and community values. These were normally addressed in the set of behavioural prescriptions and the compliance system. A notable finding was the focus on various issues unique to the nature of the company, for instance, patient welfare (Health Care sector), customer welfare (Consumer Goods and Customer Services sectors), community and environmental welfare (Oil & Gas companies), and fair financial dealings (Financials sector). The mere act of code adoption is an indication that companies had taken an endogenous initiative to respond to the exogenous forces for change through a discourse that “provide the socially constituted, self-regulating mechanisms that enact institutions and shape individual behaviour” (Phillips et al., 2004, p. 635). For some companies, this was a process to redeem or establish the legitimacy they had lost during periods of scandals. For others, it was a proactive measure to attain trust and legitimacy.

A rhetorical reading of the text has revealed some hidden messages and subsets of code language particularly in relation to management intent. On the surface, it would appear that codes constituted simple rational tools for achieving ethical organisational ends (Weaver, 1993). A closer look at the code language showed that corporations used the codes as the “front” of their legitimacy endeavour. An analysis using Aristotle’s three argumentative appeals has provided further explanations of this attempt. First, the setting of boundaries (what is acceptable and unacceptable behaviour) and the compliance scheme (monitoring, enforcement, and discipline) were rational appeals to make employees at all levels more responsible and more accountable for their actions. These were clear demonstrations that the companies had the mind-set to improve organisational ethics for the common good. Second, the presence of CEO/Chairman statements emphasising the importance of corporate ethics were signals to internal stakeholders that the senior echelon authorised the content of the code. It also conveyed the impression to external stakeholders that ethics permeated the whole organisation. Lastly, the companies used an array of means to appeal to the emotions of stakeholders, for example, graphic images, personal addresses, emotive language, and an authoritarian tone to emphasise the strong sense of obligation.

The examination of both the “manifest” and “latent” content (Berg, 2004) of corporate codes has provided some interesting insight into code language despite the inevitability of researcher bias. Firstly, in content analysis, one should not assume the frequency of occurrence directly reflects the degree of emphasis accorded to words or themes as this may not always be the case. In addition, words or sentences allocated to the same category for data reduction purposes may not reflect that category to the same extent (Smith & Taffler, 2000). Secondly, corporate codes have generally been treated as a uniform concept but they are not so in design and implementation. There is diversity in code content due to the differences in the nature of business and management mind-set. Thirdly, the study finds that, on paper, many companies are committed to the welfare of their various constituents as well as the principles, values, and norms that support sound conduct. In substance, however, the codes have placed a relatively low priority to the actual moral content and tended to be rule-based reiterating the (legal) obligations of employees in the protection of corporate reputation. Finally, the inclination towards compliance is undoubtedly a reflection of the legitimated demands of the organisation. This also shows the corporation’s (including their agents’) strategic self-interest rationale in adopting codes and in the content of codes. This managerial (organisational) self-interest underpins not only the content but also the diction and tone of the codes. On the other hand, the act of compliance on the part of internal stakeholders can be considered another manifestation of self-interest, that is, the self-interest of employees due to the feeling of fear (job security), thus supporting the view that the legitimacy drive in a way has distanced the codes from their moral foundation.

Codes of ethics are indeed documents communicating a message through particular use of the language. This study shows that research using rhetorical analysis (incorporating the functional language approach) on code language adds a valued perspective to the analysis of code content. It not only looks at what the content of codes contains (in terms of how the text relates to its context) but also analyses how it is said (in terms of the tone and style how the codes are delivered). As such, both textual and contextual perspectives complement each other in providing an enhanced understanding of code content – the cultural and historical context, the underlying motives in claiming legitimacy, and the process of acquiring legitimacy through persuasion.

This chapter concludes the research on the disclosure of corporate codes of ethics by providing some evidence to support the conceptual model of code adoption presented in previous chapters about corporations' employ of codes of ethics as a means to (re)claim legitimacy. It has examined the ethics code disclosure of 100 top global companies and presented the findings based on both a content analysis and a rhetorical analysis focusing on persuasion. The next chapter draws an overall conclusion of the thesis with some suggestions for the way forward.

CHAPTER 7 CONCLUSIONS

7.1 INTRODUCTION

In the Introduction of this thesis, reference was made to the decline of business ethics and the loss of public trust in the business community leading to the corporate pursuit of organisational legitimacy to ensure survival. Corporate codes of ethics were the communication tool used to this end. This final chapter summarises the research project; presents the main findings; identifies implications of the findings; assesses the contribution to knowledge made by the project; highlights the limitations; and makes suggestions for future research before drawing an overall conclusion of the thesis.

7.2 SUMMARY OF THE STUDY

An extensive review of the literature from various disciplines has revealed that the business environment is ever-changing, wielding various demands on its participants. As one of the key players in business activities, corporations have to deal with recurring legitimacy crises to ensure survival. The emergence of corporate codes of ethics is therefore not an accident. It is a means, expressed in written form, by corporations to address the issues of business ethics erosion to restore public trust to attain organisational legitimacy. This “pursuit of legitimacy” was illustrated diagrammatically in Figure 4.1 in Chapter 4. In view of the prevalence of corporate codes in recent years, the impetus for this study arose from a desire to provide a better understanding of the discursive role of corporate codes of ethics in (re)claiming public trust and legitimacy in light of increasing challenges to corporate legitimacy.

To understand the critical role of language and texts in institutional processes, discourse theory was deemed useful to help to make sense of why corporate codes were produced and became institutionalised. Discourse theory aims to ascertain the constructive effects of discourse through the structured and systematic study of texts in light of their context. A discursive perspective of corporate codes of ethics could provide insights into the phenomenon of how the structured sets of corporate codes come to function as “reality constructors,” that is, playing the role of legitimating agents (Alvesson & Kärreman, 2000; De Cock et al., 2005; Phillips & Hardy, 2002). Based on this premise, a discourse analysis of 100 corporate codes of ethics was conducted employing a framework of three

levels of analysis, namely, *macro*-level (historical, societal, and cultural context), *meso*-level (institutional context incorporating motivation for code production and adoption), and *micro*-level (code content) to capture the relationship between the “text” and the “context” of the corporate codes.

Chapter 1 provides an overview of the research project. It clearly describes the research problem, states the aim and objectives of the study, identifies the research methodology, emphasises the significance of the research, and highlights the assumptions and scope of the thesis.

The purpose of the *macro*-level analysis is to provide a broad contextual background to the emergence of corporate codes of ethics. It comprises two chapters: Chapter 2 (Evolution of Corporate Moral Rules) and Chapter 3 (Trust and Ethics in Modern Economies). Chapter 2 traces the historical roots and the emergence of corporate codes by arguing that business values/corporate codes of ethics had roots that could be traced back to religious, philosophical, and economic/secular sources. It follows the development of business values with the progress of entrepreneurial pursuits to highlight the historical roots of some of the current preoccupations with the ethics of business. As business developed and became more complex, there were also more outbreaks of ethical issues. However, it was found that the core of ethics had not changed but had been refined over time. Doing business still requires trust, honesty, integrity, fairness, justice, and other similar principles. The concern for business ethics is perennial but the methods of addressing those persistent issues have evolved over time and according to the needs of extant societal needs. The business ethics movement emerged in the 1970s had mobilised all interested parties to address a wide range of normative issues about business behaviour.

Chapter 3 focuses on the increasing need for ethics and trust in contemporary business. It brings this concern to the current setting by emphasising that in a globalised world where there are high expectations of corporations (particularly large corporations) to act responsibly. The chapter emphasises that there is an implicit moral mandate on corporate ethical responsibility in the new economic order of the 21st century and trust is a fundamental ingredient in market relationships. The modern economy is characterised by the trends of globalisation, communications technology, organisational change, and

complex agency relationships. Complications in the trustor-trustee relationships created by new demands of the new interdependent economic order have undermined trust and ethics leading to growing disillusionment and distrust of the business community. Recurrent incidents of this nature create legitimacy crises in business. Measures to repair trust are therefore vital to ensure market efficiency, reputational benefits, and organisational survival.

Having laid the broad contextual background of corporate codes in the *macro*-level analysis, the discourse analysis moves onto the *meso*-level analysis focusing on the institutional environment of corporations in Chapter 4. This chapter examines the institutional pressures that have driven corporations toward corporate code adoption. In addition to the legitimacy crises, new developments such as global trends, competitive pressures, and changing societal expectations have created some challenges requiring corporations to take heed of public perception and take the initiative to attain corporate legitimacy through embracing ethics and trust. As corporations exist in a complex institutional environment and are subject to a myriad of exogenous and endogenous institutional forces, they have to justify their existence in the face of such pressures. Using this context as the backdrop, the chapter chooses institutional theory as the theoretical framework, specifically, the concepts of legitimation and isomorphism, to explain the prevalence of corporate codes arguing that the emergence of corporate codes is largely a response to forces in the institutional environment. The resultant corporate code prevalence signifies the development of stable patterns of behaviour and improved understanding of the value of ethics. Through isomorphic change, that is, the adoption of codes, corporations have taken on the task of producing similar patterns (corporate codes) to shape the behaviour of their members (socialisation and internalisation) to survive (legitimacy within the world of institutions) in a highly demanding environment.

At the *micro*-level of discourse analysis, the aim is the “objectification” of corporate codes of ethics through text. It comprises two chapters, Chapters 5 and 6, with the former introducing and justifying the methodology/methods employed and the latter discussing the results and findings of the investigation. Chapter 5 reaffirms previous discussion that corporate codes of ethics has a particularly significant role in institutional change since it is the equilibrium condition for economic, social and political systems. With institutional forces propelling institutional change, corporate codes have emerged as strategic devices

to legitimise organisational activities by specifying desirable behaviour and prescribing possible consequences. The institutional view of corporate motivations in corporate codes has helped to generate two key propositions and some sub-propositions suggesting that the prevalence of corporate codes of ethics is a key corporate strategy to restore trust and (re)establish legitimacy and that the rhetoric of corporate codes is a discourse of persuasion aiming to change the perceptions of stakeholders for the same cause. The chapter chooses rhetorical analysis as the methodology to test the normatively derived propositions of why and how corporations are producing corporate codes of ethics. It is argued that corporate codes represent the rhetorical arguments corporations use to shift the institutional logics in their respective institutional fields to enable institutional change. They are a means of corporate communication constituting an important means for management to demonstrate that the organisation's practices are congruent with institutional pressures (that is, society's values, norms, and beliefs). Code language could therefore create the set of beliefs and norms that promote behavioural regularities and improve understanding and interactions of individuals and groups.

Chapter 6 completes the *micro*-level discourse analysis by analysing the data/information collected from the 100 global companies' codes of ethics (a few of them were ethics-related material). It presents the results of the two-stage analysis. Results of the first part of analysis focused on generic items such as the number of companies producing codes (or other ethics-related material), the titles of the codes, the date of adoption, and functionality (such as purpose of codes, administration, global presence and others). Results of the second part of analysis focused on the thematic patterns of the codes collected from the content analysis of the codes. This part of the analysis relied on a critical rhetorical reading of the thematic patterns to confirm or refute the normatively derived propositions. First, they confirmed that corporate codes were discursive devices constructed to achieve pragmatic, cognitive, and moral legitimacy. Second, the text (in the form of language use) showed support for the Aristotelian rhetorical justifications of *logos*, *ethos*, and *pathos*. Other findings which could help explain corporate motives were also presented. Overall, the results of content analysis confirmed the prevalence of corporate codes of ethics in recent years particularly among global companies of a certain market capitalisation. Additionally, the results of the rhetorical analysis provided evidence to show that code language was sufficiently persuasive to support the legitimising causes. However, the thematic patterns of codes tended to focus on

addressing pressing legitimacy issues facing the corporations. Such a focus would suggest that corporations were more inclined to conform reactively to exogenous forces for compliance at the expense of distancing the codes from their moral foundations (Long & Driscoll, 2008).

7.3 MAIN FINDINGS

Eight main findings arise from the discourse analysis of this study. These findings are examined below:

1. Corporate codes of ethics have a history.

Corporate codes of ethics are part of today's belief systems. To have a better understanding of this belief system, it is necessary to trace their roots. Doing so would enable us to see why corporate codes arose, how they evolved, and what their consequences have been. History shows us that social norms and moral rules/concepts are not immutable but are subject to change over time. The same applies to ethics. Ethical guidelines in the form of values, beliefs, norms, rules, and codes of ethics to set boundaries for appropriate business behaviour have also evolved in response to environmental factors of the time. This evolutionary process is manifest in a process of "continuity and change." What is considered a legitimate interpretation of ethical provisions may vary over time according to evolving practices and changing stakeholder expectations. The adoption of ethical business practices does not require wholesale changes in corporate governance but it does require the development of more reflexive and self-regulatory models suited to the requirements of the existing environment.

2. Code adoption is prevalent among big global companies.

There is widespread code adoption particularly among global companies (except the Chinese banks). It would appear that ethical issues have transcended national boundaries. This phenomenon has been driven by legal forces, listing requirements, stakeholder pressures, and most important, the global trends of social, economic, and technological developments. Due to their larger size and greater roles in the marketplace, the global companies are recognizant of the benefits of producing official ethical codes to gain legitimacy in the eyes of corporate stakeholders. Their actions could serve as role models for smaller firms which are not subject to listing requirements but are keen to respond to social expectations. However, such widespread adoption may also be perceived as

symbolic responses to legitimacy-driven pressures/regulation – sheer ritualistic responses rather than genuine efforts to induce substantive change. In that case, it is unlikely that the codes will provide significant useful ethical guidance to constrain organisational behaviour.

3. Corporate codes are discourses constructed to attain organisational legitimacy.

Legitimacy has become one of the most critical issues for corporations, especially those operating globally (Castelló & Lozano, 2011). Under the pressure of changing societal expectations, language is the carrier of legitimacy to assist organisations to renew the licence to operate and gain new spheres of power to grow. The rhetoric of corporate codes is designed to create an impression of compliance to claim integrity, and reclaim legitimacy with the hope that “burdensome” reforms will be minimised (Laufer, 2007). Code rhetoric paints a convincing portrait of corporations committed to organisational integrity, making claims of social and environmental responsibility, embracing strategic philanthropy, and employing an effective brand of proactive compliance (Laufer, 2007). However, the tenure of legitimacy can be short. The presence of codes is only as good as the top management responsible for implementing it. Trust is fragile and easy to break. The presence of codes *prima facie* enhances organisational legitimacy; however, to maintain the dynamic nature of ethical codes, they need to be periodically adjusted in light of changing environmental circumstances and stakeholder demands.

4. Corporate codes tend to focus on safeguarding corporate reputation.

The corporate codes in the study were found to have employed certain themes to “showcase” their ethical commitments. The focus on addressing crucial ethical and trust-enhancing issues, a robust compliance system, and their own business values and visions are a demonstration of their ethical credentials and intentions to appease stakeholder demands for sound ethical management and social awareness. In reality, it is a pragmatic measure to strengthen (or prevent further damage to) corporate reputation and organisational legitimacy in an institutional environment where they were threatened. Many companies (e.g., McDonald’s) have accrued benefits in maintaining or acquiring a positive reputation within their institutional environment by adding value to their brands, increasing their competitiveness, enjoying greater access to capital markets, and being exposed to less criticism. While having a code of ethics can indicate an ethical record or commitment, it is not always the case that the companies are so ethically-inclined, as

evidenced by incidents of unethical conduct by companies which had produced comprehensive codes of ethics (e.g., Enron and Lehman Brothers). In such cases, protecting organisational self-interest appears to outweigh the common good.

5. Corporate codes are issue-driven and compliance-focused.

The majority of the codes in the study tended to be “inward looking” with code provisions focusing on internal procedures and intra-corporate relationships, e.g., workplace conduct pertaining to the company’s relationship with its employees and vice versa. In this respect, they were also “compliance codes” because they stressed the importance of complying with the rules and their provisions contained guidelines and prohibitions regarding unethical and illegal conduct (Newberg, 2005). This emphasis suggests that the codes lack substantial ethical content (Long & Driscoll, 2008; Sanderson & Varner, 1984). The implication is significant. This emphasis on compliance (“doing the right thing”) is a reflection of the social climate of the day. It has the tendency to project ethics as a set of behavioural rules, which is not what ethics is. Ethics is an internally-generated concept of right or wrong without the imposition of any external law or rules. The compliance-oriented nature of corporate codes does give the erroneous impression that it is a product of three key elements – the law, corporate self-regulation, and ethics. However, law and ethics are different concepts. What is legal may not be ethical. The heavy focus on compliance may not educate internal stakeholders to proactively internalise values of higher moral order as guiding principles for their daily conduct and decision-making. At best, it encourages them to comply with the law rather than the spirit of the codes. As such, there is still much work for corporations to contribute to building an ethical economy as envisaged (e.g., Arvidsson, 2009). They need to first show the commitment to foster a strong ethical culture in their organisations through strong moral leadership. Without ethical buttresses fortifying this commitment, code adoption is sheer symbolic legitimacy – a potential “decoupling” of the organisation’s public response from its internal workings.

6. Corporate codes show important common textual features.

Many corporate codes have been perceived as “boiler-plated” and “cut and paste” documents (Forster et al., 2009; Holder-Webb & Cohen, 2012) lacking in moral uniqueness (Long & Driscoll, 2008) because they have displayed high levels of commonality in their content. They have used similar themes, similar formats, similar

styles, and similar persuasive devices such as the choice of words and lexical structures. Institutional theorists would explain such “ethical homogeneity” as the engagement in isomorphic behaviours to comply with the external regulatory environment (DiMaggio & Powell, 1983). Indeed, such “mimicry” occurred due to the requirements mandated by legislation and listing rules. Even though the requirements vary, they have a tendency to elicit generic or boiler-plated codes. The fear of litigation has seen corporations make “compliant disclosures” that are very much regulation-driven. Due to the highly regulated and competitive nature of the business environment, it is unlikely that individual organisations would produce corporate codes with unique moral elements. Code commonality is hardly seen as wrong doing. To a large extent, much of the content is taken for granted, and the rhetoric of corporate codes is determined long before the code is written (Johnstone, 2008; Newberg, 2005). For instance, Section 406 of the *Sarbanes-Oxley Act* has influenced the language and design of some corporate codes (Newberg, 2005) and successful corporations have provided the template. Authors of corporate codes design their codes to please their stakeholders. Imitation is widespread partly due to corporate intent to behave in conventional ways that will not be noticed as different.

7. Corporate codes create and maintain power relationships.

Codes of ethics have been used by corporations/management to control not only the environment (public perception) but also the actions of employees. Code language enforces compliance through maintaining the hierarchical positions between the different groups within a company. The specific language strategies employed by the code author to accomplish specific persuasive goals is to design corporate rhetoric strategically to instil a sense of obligation in employees to comply with the code prescriptions. In the CEO/Chairman statement and throughout the textual part of the code, the power stratum is highly visible. First, the CEO presents himself or herself as trustworthy, knowledgeable, and truthful to appeal to the audience’s emotions (of trust), then assumes a rather authoritarian position instructing the employees to comply with the rules to ensure appropriate business practices. This treatment of employees as passive receivers of rules and regulations by placing the onus on them is not an appeal to their morality, nor is it any form of empowerment to select the right way of ethical behaviour. It is a “strategy of fear” (Fairclough, 2003) – a persuasive attitude, which strategically works through the combination of two opposing emotions, fear and trust. This type of power-

imposed compliance does not inspire and promote ethical commitment; at best, it induces “empty compliance” – compliance with the letter rather than with the spirit.

8. Corporate codes are public documents expressing organisational ethical stance.

A code of ethics is a public document signalling the ethical commitment of an organisation. The importance of a written document on individual behaviour cannot be ignored. Social psychology literature reveals that consistency plays an integral role in shaping human behaviour (Fairfax, 2007). The notion of consistency is generally related to moral integrity and trustworthiness suggesting that when people express commitments, they feel pressured to engage in actions that support those commitments. This pressure is most pronounced when the commitment is written. The fact that something is written (rhetoric) often enhances the behavioural impact (reality). The pressure to bring rhetoric to reality stems from the desire for consistency, which psychology theorists view as a central motivator of human behaviour. Because of the value society places on consistency, a written declaration is a critical form of commitment having the propensity to shape behaviour (Fairfax, 2007). When codes are made widely available in written form, it is most likely that strategic support from the top of the corporate ladder will ensure that the ethical commitments are transformed into corporate behaviour. Such actions will bring “rhetoric” into “reality.”

The practical implications of these findings to businesses are clear. Corporate codes of ethics, despite their many flaws, represent a powerful strategic tool to help to attain organisational legitimacy and have an important function to guide employee behaviour in the workplace. The prevalence of corporate codes suggests that there is “a market for ethical conduct” (Newberg, 2005). In an environment in which institutional pressures for such conduct are on the rise, there is evidence to show that many companies, global and local, big and small, are actively trying to distinguish themselves in the marketplace “through ethical values and behavior, building trust with stakeholders and achieving competitive advantage as a result” (Tapscott & Ticoll, 2003, p. 71).

7.4 IMPLICATIONS OF THE FINDINGS

A number of inferences can be drawn from the findings of the research. The implications of these findings might be of interest to ethics researchers, historians, corporations/managers, and policy makers. They are discussed as follows:

7.4.1 For ethics researchers

The study affirms that ethics is an important element for the common good of society as it is essential to the smooth operation of capitalistic pursuits. It also affirms that many global companies have adopted codes of ethics to ensure corporate legitimacy in the current business environment. As the issues of ethics and trust are mainly subjective in nature, they are not considered in vogue with mainstream research which seems to have a fixation on the objectivity of the research process. However, ethical betterment in business behaviour is unlikely to happen if researchers continue to focus only on empirical research. While such information is important, ethics researchers have the added responsibility of showing how business should behave, which can only result in normative research.

With widespread calls for ethics reform to restore public trust in the business community, ethics researchers can be significant catalysts in promoting both ethical conduct and social engagement. With new ethical controversies and questions being brought to the fore by increasingly complex modern economic activities, corporate code research can extend beyond the collection of descriptive summary statistics and generic prescriptions for code design and implementation (Weaver, 1993). Researchers can conduct research on the theoretical and empirical roles of ethics in the economy in general and in organisations in particular. They can critically examine how business ethics serves the important social function of integrating business and society by promoting the legitimacy of business operations. They can delineate the role and limits of institutional pressures and management discretion. They can also examine the role of managers as moral actors who do not act solely to satisfy institutional pressures for legitimacy. In short, ethics researchers can conduct their investigations from different perspectives - descriptive, normative, critical, and/or others, all of which can facilitate and enrich research on ethics.

7.4.2 For historians

The study shows that corporate codes of ethics bear traces of the older moral/ethical concepts, that capitalistic pursuits have over the years overcome crises by transforming themselves periodically for economic expansion to continue, and that, in recent years, recurrent corporate failures have led to dismally low levels of public trust in organisations and their leaders prompting demands for trust repair and ethics betterment. This is evidence affirming that business ethics (including corporate codes of ethics) has a

history. It also confirms the relevance of ethics to contemporary business. Such an inextricable relationship between business history and business ethics is significant as it shows corporate codes as a type of organisational phenomenon.

Corporate codes are created, adopted, and revised to reflect corporations' interactions with various environmental forces. The interdependence of economic and social phenomena shows that the history of business ethics provides an important background for understanding business ethics today. The past is a foundation of the present and a natural extension to the future. To better understand today's belief systems (moral/ethical values), it is necessary to trace the roots of these beliefs as it enables the researcher to see how and why they arose, how they operated in the past, and what their consequences have been (Oosterhoff, 2001). Ethics historians can certainly find patterns in the history of business ethics to determine the meaning of the historical process. The search may simply be for an explanation of the past. In many cases, the patterns that are discovered can also be used to predict the future. Such an examination can also provide the intellectual means to evaluate and challenge the findings. A historical analysis of the *macro* societal dimensions of business ethics and the *micro* firm level (organisational and managerial considerations) will certainly reveal the complexity of and the controversy in business ethics that can be of value to ethics betterment.

7.4.3 For corporations/managers

The study affirms that society, in particular the institutional environment of corporations, has an acute awareness of and sensitivity to the importance of corporate ethical behaviour. It is expected that corporations maintain an ethical culture. The presence of a code of ethics takes on not only substantive but also symbolic significance as it serves as a guide to employees and a signal to external stakeholders that the organisation is concerned with ethics. A code of ethics represents a manifestation of a core set of values of top management and the corporation. However, as the majority of ethics codes tend to be issue-driven and compliance-focused rather than integrity codes, such an emphasis on rules and enforcement procedures show that the codes are more resonant with a regulatory or legalistic rhetoric than with ethical substance. To make the codes of ethics more effective and ethics-oriented, it is necessary for a corporation to nurture an ethical culture on a continuing basis and to live up to its stated ethical values (see Verbos et al., 2007 and Webley & Werner, 2008).

Regulations are relevant to ensure compliance but in the long run, compliance-enhancing policies that neglect the nurturing and support of moral/ethical values may undermine the prosperity of modern commercial society (Wells & Graafland, 2012). It is therefore important for corporations and their executives to develop strategic leadership of ethical behaviour in business. They must accept that there are limits of regulation. Rather than being left to chance, they should realise that business is a social institution with economic, social, political, and moral power (McMahon, 1991). They could use this moral power responsibly to serve as ethics leaders “to establish a social context within which positive self-regulation of ethical behaviour becomes a clear and compelling organizational norm” (Thomas, Schermerhorn, Dienhart, & Bartles, 2004, p. 56) to shift the ethics mindfulness of organisational members in positive directions. (See also Point 3 in Section 7.3: Main Findings.)

7.4.4 For policy makers

The study also reveals that the prevalence of corporate codes came in large part from coercive pressures of government regulation and other regulatory agencies (such as the stock exchanges) for broader improvement in business ethics. As mentioned in Section 7.4.3 above, formal public policies such as regulations have limits. The law, argued Stone (1975), cannot do it alone and more socially and ethically responsible business behaviour requires that corporations and their executives not just respond to the requirements of the law but hold high moral standards. The main purpose of corporate codes of ethics is to *educate* employees as to the proper values of the organisation and society. They should not be presented as deterrents of unethical behaviour.

Policy makers need to realise that formal public policies may be limited in reach. They need to develop some new forms of socially responsible corporate behaviour to inculcate in corporate participants values and principles that truly guide economic activity in the global economy. As such, both legislative regulation and self-regulation are necessary to regulate/guide business dealings. However, either form alone is unlikely to be effective. The cooperation of corporate executives is crucial. Policy makers should get the attention and commitment of this group if their policy initiatives and public pressures are to generate the necessary corporate obligation to respect public values and contribute to the public good while in the pursuit of private wealth enhancement of their organisations. A coordinated effort involving all the relevant parties to build and manage ethics and trust

within the business community needs to be developed. Policy makers such as governments, stock exchanges, professions, and the academic community need to foster cooperative partnerships with business executives and other vested interest groups to come to an agreement on how business should operate and on the values that are rooted for that purpose. Legislation and regulation initiated by governments and stock exchanges can provide the enforcement mechanisms for basic business protocol. Corporations and their executives can set the tone at the top by providing the necessary moral guidance. Professions such as accounting and finance can encourage ethical behaviour within their respective sectors. The academic community, in their education of future business leaders, can make their contributions by emphasising the importance of ethics in academic study and encouraging more research into the significant role of organisational culture in building an effective ethical business environment.

7.5 CONTRIBUTION OF THE RESEARCH PROJECT

This research project has provided insights regarding the discourse of corporate codes of ethics. It helps to make a connection between the “text” and “context” of the codes by explaining why corporate codes are produced, what thematic contents are included, and how they are disseminated. In light of the development of the propositions (theoretical orientation), the methodology/methods employed and the evidence obtained, it has made contributions (see also Chapter 1, Section 1.4) in three broad areas - theoretical, methodological, and organisational. These are presented below.

7.5.1 Theoretical contributions

First, the study adds to the growing literatures of business ethics and trust. In particular, it adds to the literature on *corporate codes of ethics* in the following ways:

- It shows that the roots of moral/ethical concepts came from religion, philosophy, economics/business, and the secular. These concepts are not immutable but evolutionary in nature. Times change, the needs of people change, but how people behave should never change. In civil societies, people should always be able to trust one another. A historical perspective of corporate codes of ethics enhances the understanding of the evolutionary nature of business ethics.
- It has provided a better understanding of the true state of corporate codes through a thorough examination of the content of corporate codes. In particular, the lack

of ethical substance (Long & Driscoll, 2008; Sanderson & Varner, 1984) is a poignant reminder that there is still work to be done to contribute to the establishment of an ethical economy envisaged by idealists such as Arvidsson (2009). It supports the moral status of capitalism, although there is still a gap between the ideals by which society lives and the institutions by which it functions (Vogel, 1991).

- It contributes to a better understanding of the extent to which global corporations have developed codes of ethics. It shows that ethics and trust are intricately related in contemporary economies as they share similar concerns for good behaviour. Corporate initiatives such as corporate codes of ethics are introduced to address a wide range of normative issues about good business behaviour.
- It shows that corporation's intent to influence the business world is through social control and regulation, which is conducted through an evolving, dialectic feedback process through experience-ethics-politics-law reforms (Nielsen, 2010) to ensure appropriate ethical judgement is made. However, the *ad hoc*, damage-control considerations that brought (corporate codes of) ethics into being definitely requires some strengthening through other ethical buttressing mechanisms.

Second, the study contributes to an emerging line of research that studies *institutional isomorphism*. The institutionalisation of corporate codes signifies the need for corporations to conform to institutional pressures for change. With the increase in stakeholder activism, this can provide ample opportunities to explore the power of institutional pressures.

Third, the study contributes to *discourse theory literature* by highlighting how the social reality of the business environment is produced and constituted through the discourse of language, and in this case, corporate codes of ethics. In light of the instrumental, relational, and moral dimensions of corporate codes of ethics, the findings would suggest a contribution to the critical corporate communication literature which regards corporate narrative reporting as a means of consolidating the private interests of corporations, rather than increasing transparency and accountability (Beelitz & Merkl-Davies, 2012). CEO "clout" uses corporate communication to sustain relations of domination. In that

sense, there is intent to change corporate behaviour, and yet, paradoxically, it also maintains *status quo*.

7.5.2 Methodological contributions

First, the study highlights that *discourse analysis* is a useful method to explore the social constructions of institutions because it provides the methodological framework for studying organisational and societal phenomena. In the case of corporate codes of ethics, it shows that the text of the codes will be made more meaningful by drawing on the context that leads to their production. Thus, it provides a more complete, holistic, and contextual portrayal of the codes.

Second, *rhetorical analysis* is a useful research method to study language, as can be seen in the study of corporate code language. It provides a more detailed and sophisticated view of texts by delving into where the words, ideas, and organisation of a text come from. Like discourse analysis, it enhances the understanding of the text (language) through the contextual background (historical, cultural, and institutional) of the text. It offers an additional perspective and understanding of the text through a heightened awareness of the message under rhetorical consideration and an appreciation for the ways the rhetor crafts the language for persuasive purposes. As a crucial part of discourse analysis to understand the relationship of text and its context, rhetorical analysis focuses on the choice of language to ascertain the intent of the texts. As such, critical scrutiny of code language using rhetorical analysis helps to ascertain the types of persuasive appeals employed to ensure the fulfilment of code intent.

Third, the study also shows that *institutional theory* provides a useful framework to explain institutional change. The focus on institutional isomorphism helps to add a much needed perspective on the institutional pressures for organisational legitimacy and survival. Institutional theory complements discourse analysis (or vice versa) in analysing the institutional process of corporate codes. It also adds value to the socially “constructive” effects of discourse, that is, the critical role of language in creating social reality. A discursive perspective on institutionalisation and institutional change can provide considerable insight into what corporate codes are and how they are produced and why they are adopted.

7.5.3 Organisational contributions

First, the study contributes to the literature on *multinational firms*. Organisations, in particular, global companies, face immense pressures to conform, hence the perceived value of corporate codes of ethics. This study shows that global companies in all major sectors have produced corporate codes of ethics, which could serve as a model for all other sectors, locally or internationally

Second, the linguistic conceptualisation of institutionalisation highlighted in this study can make a contribution to *management and organisational theory* in the following ways:

- It helps to understand the shifts and changes in managerial rationality (that is, the endogenous forces to produce corporate codes) (Scott & Christensen, 1995).
- It helps to explain why organisations take action to ensure that their operations are perceived to be legitimate (Dowling & Pfeffer, 1975). There exists a compelling rationale for corporations to produce corporate codes to change public perception to (re)gain trust.
- The rhetoric of codes helps to explain the rationale of adoption and shows the means of doing so.

7.6 LIMITATIONS OF THE STUDY

The conclusions and contributions drawn from the results of the study should be considered in conjunction with some of the limitations inherent in its design enumerated below:

First, the study focuses on 100 global companies. The size of the sample might be adequate; however, it was somewhat biased toward top global companies. This may affect the generalisability of the results to a cross-section of large and small companies.

Second, textual analysis is inevitably selective. Even though two coders were employed to content analyse the thematic units of the codes, it is unavoidable that there were some element of coder subjectivity in the interpretations.

Third, the study only examines the themes and issues of the codes in general. No attempt has been made to analyse each of the codes in detail and the impact of organisational contexts on code development and usage.

Fourth, some companies did not produce corporate codes of ethics, so surrogates were used in the form of corporate social responsibility reports or corporate governance information where there was mention of ethics-related information. These might not generate the same type of information as formal codes of ethics.

Fifth, the corporate codes and ethics-related materials attained for this study were not published in the same year but in different periods of time. While some codes specifically mentioned the year of publication, others did not. This study assumes that all the sample codes are current.

Finally, the study focused on the intent of the discourse (*rhetoric*) of the corporate codes of ethics and the *process* of institutionalisation; it did not focus on the actual *outcome/effect (reality)* of the codes.

7.7 SUGGESTIONS FOR FUTURE RESEARCH

There are several prospective areas for further research highlighted by the results/findings of this study.

Research can be conducted on corporate codes of ethics or business ethics in general in the following manner. First, a *comprehensive analysis* can be conducted on the 100 global codes (the sample of this study) in the following ways: selected companies, by sector, or by country. Second, *comparative studies* can be conducted on the corporate codes between selected companies, among sectors, and between selected regions or countries. Third, *case studies* (single or multiple) can be conducted on individual companies. This could be done randomly or purposively. For the latter, it would be interesting to identify and select companies that have been accused of ethical misconduct as this could provide the opportunity to ascertain how they redeem themselves as ethical entities. Fourth, a *linguistic analysis* can be conducted on the text of corporate codes. This can be a detailed study of the semantics, syntax, the power status, and other areas pertinent to code language. Fifth, as an *extension of the current study* which focused on

the process and intent (rhetoric) of corporate codes, a complementary study could be conducted on the outcome and effect (reality) of the codes to ascertain the substantive versus symbolic legitimacy aspects of corporate codes. Finally, a *discourse analysis* similar to the current study could be conducted to analyse code adoption among smaller companies or professions, to ascertain whether they face the same institutional pressures for legitimacy. Additionally, similar studies on ethics could be extended to include *other types of corporate communications* such as media releases, conference calls, and news reports.

7.8 FINAL REMARKS

On the whole, this is a worthwhile project contributing valuable insights into not only the *status quo* but also many other aspects of corporate codes of ethics. In terms of the subject of business ethics in general, it has shown that many “old” moral/ethical concepts and principles have endured over time despite the constant flux in the business environment. Concepts and principles such as integrity, fairness, justice, trust, and honesty, which have been enshrined by religion, philosophy, economics/business, and even the secular, still provide guidance to business people and organisations when they are at a crossroads between self-interest and moral perplexity. The results of this study could contribute to a better understanding of the power of institutional forces in the business environment. To survive in a competitive and highly uncertain environment, corporations have to conform to not only technical and economic demands but also social and cultural expectations. Thus, code adoption is one of the conforming devices employed by corporations to maximise their legitimacy, protect their reputation, and increase their chance of survival. The study could also provide code writers with some insights about the use of discourse in corporate codes. Instead of regulative and legalistic codes focusing on rules and procedures, they could consider producing codes for genuine moral experiences. More reflexive models allowing for elements of empowerment would certainly facilitate better ethical decision-making. Finally, this study could provide a sound basis for further research in the areas of business ethics, trust, code of ethics, and institutional analysis of organisations. It also offers some methodological ideas involving historical studies, discourse analysis, and rhetorical analysis that could be used not only in business but also in other disciplines.

REFERENCES

- Aasland, D. G. (2004). On the ethics behind "business ethics". *Journal of Business Ethics*, 53(1/2), 3-8.
- Adams, J. S., Tashchian, A., & Shore, T. H. (2001). Codes of ethics as signals for ethical behavior. *Journal of Business Ethics*, 29(3), 199-211.
- Adler, P. S. (2001). Market, hierarchy, and trust: The knowledge economy and the future of capitalism. *Organization Science*, 12(2), 215-234.
- Aguilera, R. V., Rupp, D. E., Williams, C. A., & Ganapathi, J. (2007). Putting the S back in corporate social responsibility: A multilevel theory of social change in organizations. *Academy of Management Review*, 32(3), 836-863.
- Alvesson, M., & Kärreman, D. (2000). Varieties of discourse: On the study of organizations through discourse analysis. *Human Relations* 53(9), 1125-1149.
- Amburgey, T. L., & Dacin, T. (1994). As the left foot follows the right? The dynamics of strategic and structural change. *The Academy of Management Journal*, 37(6), 1427-1452.
- Amernic, J. H., & Craig, R. J. (2000). Accountability and rhetoric during a crisis: Walt Disney's 1940 letter to stockholders. *The Accounting Historians Journal*, 27(2), 49-86.
- Amernic, J. H., & Craig, R. J. (2001). Three tenors in perfect harmony: "Close readings" of the joint letter by the heads of aluminium giants Alcan, Pechiney, and Alusuisse announcing their mega-merger plan. *Critical Perspectives on Accounting*, 12(6), 763-795.
- Amernic, J., & Craig, R. (2013). Leadership discourse, culture, and corporate ethics: CEO-speak at News Corporation. *Journal of Business Ethics*, 118(2), 379-394.
- Argandoña, A. (1999). Sharing out in alliances: Trust and ethics. *Journal of Business Ethics*, 21(2/3), 217-228.
- Argandoña, A. (2004). Economic ethics and institutional change. *Journal of Business Ethics*, 53(1/2), 191-201.
- Aristotle. (2000). *Politics; Nicomachean ethics*. Edited by R. Crisp. Cambridge: Cambridge University Press.
- Arjoon, S. (2005). Corporate governance: An ethical perspective. *Journal of Business Ethics*, 61(4), 343-352.
- Armstrong, P. (1991). Contradiction and social dynamics in the capitalist agency relationship. *Accounting, Organizations and Society*, 16(1), 1-25.

- Arnold, P. J. (2009). Global financial crisis: The challenge to accounting research. *Accounting, Organizations and Society*, 34(6/7), 803-809.
- Arrow, K. (1974). *The limits of organizations*. New York: Norton.
- Arvidsson, A. (2009). The ethical economy: Towards a post-capitalist theory of value. *Capital & Class*, 97, 13-29.
- Ashby, W. (1997). *A comprehensive history of Western ethics*. Amherst, New York: Prometheus Books.
- Ashforth, B. E., & Gibbs, B. W. (1990). The double-edge of organizational legitimation. *Organization Science*, 1(2), 177-194.
- Axelrod, R. (1990). *The evolution of co-operation*. London: Penguin.
- Backof, J. F., & Martin, C. L. (1991). Development of the codes of ethics in the legal, medical and accounting professions. *Journal of Business Ethics*, 10(2), 99-110.
- Baier, A. (1986). Trust and antitrust. *Ethics*, 96(2), 231-260.
- Bakan, J. (2004). *The corporation: The pathological pursuit of profit and power*. New York: Free Press.
- Baldwin, J. W. (1959). *The medieval theories of just price*. Philadelphia, PA: American Philosophical Society.
- Ball, R. (2009). Market and political/regulatory perspectives on the recent accounting scandals. *Journal of Accounting Research*, 47(2), 277-323.
- Barber, B. (1983). *The logic and limits of trust*. New Brunswick, NJ: Rutgers University Press.
- Barry, N. (1998). *Business ethics*. London: Macmillan Press.
- Bassiry, G. R., & Jones, M. (1993). Adam Smith and the ethics of contemporary capitalism. *Journal of Business Ethics*, 12(8), 621-627.
- Bauer, M. W. (2000). Classical content analysis: A review. In M. W. Bauer & G. Gaskell (Eds.), *Qualitative researching with text, image and sound: A practical handbook* (pp. 131-151). London: Sage.
- Bayou, M. E., Reinstein, A., & Williams, P. F. (2011). To tell the truth: A discussion of issues concerning truth and ethics in accounting. *Accounting, Organizations and Society*, 36(2), 109-124.
- Bazerman, C., & Prior, P. (Eds.). (2004). *What writing does and how it does it: An introduction to analyzing texts and textual practices*. Mahwah, NJ: Lawrence Erlbaum Associates.

- Beadle, R., & Moore, G. (2006). MacIntyre on virtue and organization. *Organization Studies*, 27(3) 323-340.
- Beelitz, A., & Merkl-Davies, D. M. (2012). Using discourse to restore organisational legitimacy: 'CEO-speak' after an incident in a German nuclear power plant. *Journal of Business Ethics*, 108(1), 101-120.
- Bell, G. G., Oppenheimer, R. J., & Bastien, A. (2002). Trust deterioration in an International buyer-supplier relationship. *Journal of Business Ethics*, 36(1/2), 65-78.
- Benson, G. C. S. (1989). Code of ethics. *Journal of Business Ethics*, 8(5), 305-319.
- Bentham, J. (1776). *A fragment on government*. Revised and edited by J. H. Burns, & H. L. A. Hart, (1977). London: Athlone Press.
- Berd, A. M. (Ed.). (2010). *Lessons from the financial crisis: Insights from the defining economic events of our lifetime*. London: Risk Books.
- Berg, B. (2004). *Qualitative research methods for the social sciences*. Toronto: Allyn and Bacon.
- Berger, P., & Luckmann, T. (1966). *The social construction of reality: A treatise in the sociology of knowledge*. New York: Doubleday.
- Berle, A. A., & Means, G. C. (1932). *The modern corporation and private property*. New York: Macmillan.
- Bibb, S., & Kourdi, J. (2004). *Trust matters: For organisational and personal success*. Hampshire, UK: Palgrave Macmillan.
- Bigley, G. A., & Pearce, J. L. (1998). Straining for shared meaning in organization science: Problems of trust and distrust. *The Academy of Management Review*, 23(3), 405-421.
- Blau, P. M. (1964). *Exchange and power in social life*. New York: John Wiley & Sons.
- Bloomfield, M., & Murray, A. (2008). *Corporate responsibility: A critical introduction*. Oxford: Oxford University Press.
- Bluhm, L. H. (1987). Trust, terrorism, and technology. *Journal of Business Ethics*, 6(5), 333-341.
- Bodolica, V., & Spraggon, M. (2015). An examination into the disclosure, structure, and contents of ethical codes in publicly listed acquiring firms. *Journal of Business Ethics*, 126(3), 459-472.
- Bowie, N. (2006). The philosophical foundations of business ethics. In M. J. Epstein & K. O. Hanson (Eds.), *The accountable corporation* (Vol. 2 pp. 3-10). Westport, CT: Praeger.

- Bowie, N. E., & Freeman, R. E. (1992) *Ethics and agency theory: An introduction*. New York: Oxford University Press.
- Bradley, M., Schipani, C. A., Sundaram, A. K., & Walsh, J. P. (1999). The purposes and accountability of the corporation in contemporary society: Corporate governance at a crossroads. *Law and Contemporary Problems*, 62(3), 9-86.
- Brenkert, G. G. (1998a). Trust, business and business ethics: An introduction. *Business Ethics Quarterly*, 8(2), 195-203.
- Brenkert, G. G. (1998b). Trust, morality and international business. *Business Ethics Quarterly*, 8(2), 293-317.
- Brignall, S., & Modell, S. (2000). An institutional perspective on performance measurement and management in the 'new public sector'. *Management Accounting Research*, 11(3), 281-306.
- Byron, W. J. (2006). *The power of principles: Ethics for the new corporate culture*. Maryknoll, NY: Orbis Books.
- Brown, A. D., Ainsworth, S., & Grant, D. (2012). The rhetoric of institutional change. *Organization Studies*, 33(3), 297-321.
- Bryman, A., & Bell, E. (2007). *Business research methods* (2nd ed.). Oxford: Oxford University Press.
- Burke, K. (1969). *A grammar of motives*. Berkeley, CA: University of California Press.
- Busco, C., Riccaboni, A., & Scapens, R. W. (2006). Trust for accounting and accounting for trust. *Management Accounting Research*, 17, 11-41.
- Caldwell, C., & Clapham, S. E. (2003). Organizational trustworthiness: An international perspective. *Journal of Business Ethics*, 47(4), 349-364.
- Calkins, M. (2000). Recovering religion's prophetic voice for business ethics. *Journal of Business Ethics*, 23(4), 339-352.
- Calton, J. M. (2012). Trust. In L. Shaw (Ed.), *Sage brief guide to business ethics* (pp. 31-39). Los Angeles, CA: Sage.
- Campbell, R., & Kitson, A. (2008). *The ethical organisation* (2nd ed.). Hampshire, UK: Palgrave Macmillan.
- Carnevale, D. G. (1995). *Trustworthy government: Leadership and management strategies for building trust and high performance*. San Francisco, CA: Jossey-Bass Publishers.
- Castelló, I., & Lozano, J. M. (2011). Searching for new forms of legitimacy through corporate responsibility rhetoric. *Journal of Business Ethics*, 100(1), 11-29.

- Cavanagh, G. F. (2004). Global business ethics: Regulation, code, or self-restraint. *Business Ethics Quarterly*, 14(4), 625-642.
- Cavanagh, G. F. (2010). *American business values: A global perspective*. Upper Saddle River, NJ: Pearson/Prentice Hall.
- Center for Business Ethics. (1992). Instilling ethical values in large corporations. *Journal of Business Ethics*, 11(11), 85-91.
- Cho, C. H., Roberts, R. W., & Patten, D. M. (2010). The language of US corporate environmental disclosure. *Accounting, Organizations and Society*, 35(4), 431-443.
- Chua, F., & Rahman, A. (2011). Institutional pressures and ethical reckoning by business corporations. *Journal of Business Ethics*, 98(2), 307-329.
- Cianci, A. M., & Kaplan, S. (2008). The effects of management's pronouncement strategies on investors' judgments of the trustworthiness of management. *Journal of Business Ethics*, 79(4), 423-444.
- Ciulla, J. B. (2011). Is business ethics getting better? A historical perspective. *Business Ethics Quarterly*, 21(2), 335-343.
- Clegg, S. R., Hardy, C., Lawrence, T. B., & Nord, W. R. (Eds.). (2006). *The Sage handbook of organization studies*. London: Sage.
- Commers, M. S. R., Vandekerckhove, W., & Verlinden, A. (Eds.). (2008). *Ethics in an era of globalization*. Aldershot, UK: Ashgate.
- Connelly, B. L., Certo, S. T., Ireland, R. D., & Reutzel, C. R. (2011). Signaling theory: A review and assessment. *Journal of Management*, 37(1), 39-67.
- Cragg, W. (2002). Business ethics and stakeholder theory. *Business Ethics Quarterly*, 12(2), 113-142.
- Cragg, W. (Ed.). (2005). *Ethics codes, corporations and the challenge of globalization*. Cheltenham, UK: Edward Edgar.
- Craig, R. J., & Amernic, J. H. (2004). Enron discourse: The rhetoric of a resilient capitalism. *Critical Perspectives on Accounting*, 15(6/7), 813-851.
- Crane, A., & Matten, D. (2010). *Understanding business ethics* (3rd ed.). Oxford: Oxford University Press.
- Cressey, D. R., & Moore, C. A. (1983). Managerial values and corporate codes of ethics. *California Management Review*, 25(4), 53-77.
- Dacin, M. T. (1997). Isomorphism in context: The power and prescription of institutional norms. *The Academy of Management Journal*, 40(1), 46-81.

- Davidson, B. I., & Stevens, D. E. (2013). Can a code of ethics improve manager behavior and investor confidence? An experimental study. *The Accounting Review*, 88(1), 51-74.
- Davis, G. F. (2009). *Managed by the markets: How finance re-shaped America*. Oxford, UK: Oxford University Press.
- Davison, J. (2010). [In]visible [in]tangibles: Visual portraits of the business élite. *Accounting, Organizations and Society*, 35(2), 165-183.
- Davison, J. (2014). Visual rhetoric and the case of intellectual capital. *Accounting, Organizations and Society*, 39(1), 20-37.
- De Cock, C., Fitchett, J., & Volkmann, C. (2005). Constructing the new economy: A discursive perspective. *British Journal of Management*, 16(1), 37-49.
- De George, R. T. (1987). The status of business ethics: Past and future. *Journal of Business Ethics*, 6(3), 201-211.
- De George, R. T. (1989). There is ethics in business ethics; But there's more as well. *Journal of Business Ethics*, 8(5), 337-339.
- De George, R. T. (2006). The history of business ethics. In M. J. Epstein & K. O. Hanson (Eds.), *The accountable corporation* (Vol. 2. pp. 47-58). Westport, CT: Praeger.
- De George, R. T. (2010). *Business ethics* (7th ed.). Upper Saddle Rivers, NJ: Prentice Hall/Pearson.
- De Holan, P. M., & Phillips, N. (2002). Managing in transition: A case study of institutional management and organizational change. *Journal of Management Inquiry*, 11(1), 68-83.
- Deephouse, D. L. (1996). Does isomorphism legitimate? *The Academy of Management Journal*, 39(4), 1024-1039.
- DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48(2), 147-160.
- DiPiazza, S. A. J., & Eccles, R. G. (2002). *Building public trust: The future of corporate reporting*. New York: John Wiley & Sons.
- Donaldson, T., & Dunfee, T. W. (1999). *Ties that bind: A social contracts approach to business ethics*. Boston, MA: Harvard Business School Press.
- Dowling, J., & Pfeffer, J. (1975). Organizational legitimacy: Social values and organizational behavior. *The Pacific Sociological Review*, 18(1), 122-136.

- Drover, W., Franczak, J., & Beltramini, R. F. (2012). A 30-year historical examination of ethical concerns regarding business ethics: Who's concerned? *Journal of Business Ethics, 111*(1), 431-438.
- Dugdale, J. S. (1962). *Economic and social history*. London: The English Universities Press.
- Dunfee, T. W., & Donaldson, T. (1995). Contractarian business ethics: Current status and next steps. *Business Ethics Quarterly, 5*(2), 173-186.
- Eatwell, J. (1998). Ethics and self-interest. In I. Jones, & M. Pollitt (Eds.), *The role of business ethics in economic development* (pp. 21-30). London: Macmillan Press.
- Erwin, P. M. (2011). Corporate codes of conduct: The effects of code content and quality on ethical performance. *Journal of Business Ethics, 99*(4), 535-548.
- Ezzamel, M., Robson, K., Stapleton, P., & McLean, C. (2007). Discourse and institutional change: 'Giving accounts' and accountability. *Management Accounting Research, 18*(2), 150-171.
- Fairclough, N. (2003). *Analysing discourse: Text analysis for social research*. London: Routledge.
- Fairfax, L. M. (2007). Easier said than done? A corporate law theory for actualizing social responsibility rhetoric. *Florida Law Review, 59*, 771-828.
- Farrell, B. J., & Cobbin, D. M. (1996). A content analysis of codes of ethics in Australian enterprises. *Journal of Managerial Psychology, 11*(1), 37-55.
- Farrell, B. J., & Cobbin, D. M. (2000). A content analysis of codes of ethics from fifty-seven national accounting organisations. *Business Ethics: A European Review, 9*(3), 180-190.
- Farrell, H., & Farrell, B. J. (1998). The language of business codes of ethics: Implications of knowledge and power. *Journal of Business Ethics, 17*(6), 587-601.
- Ferrell, O. C., Fraedrich, J., & Ferrell, L. (2011). *Business ethics: Ethical decision making and cases* (8th ed.). Mason, OH: South-Western/Cengage Learning.
- Fogarty, T. J., & Rogers, R. K. (2005). Financial analysts' reports: An extended institutional theory evaluation. *Accounting, Organizations and Society, 30*(4), 331-356.
- Forster, M., Loughran, T., & McDonald, B. (2009). Commonality in codes of ethics. *Journal of Business Ethics, 90*(2 Supplement), 129-139.
- Fort, T. L. (2007). *Business, integrity, and peace*. Cambridge, UK: Cambridge University Press.

- Frankel, M. S. (1989). Professional codes: Why, how, and with what impact? *Journal of Business Ethics*, 8(2/3), 109-115.
- Fraser, W. (2010). *Trust and repair: An exploration of how work groups repair a violation of trust*. Unpublished doctoral dissertation, Fielding Graduate University, Santa Barbara, CA.
- Friedland, J. (Ed.). (2009). *Doing well and good: The human face of the new capitalism*. Charlotte, NC: Information Age Publishing, Inc.
- Friedman, M. (1970, September 13). The social responsibility of business is to increase its profits. *New York Times Magazine*, pp. 32-33, 122, 126.
- Fukuyama, F. (1995). *Trust: The social virtues and the creation of prosperity*. New York: Free Press.
- Galavielle, J.-P. (2004). Business ethics is a matter of good conduct and good conscience? *Journal of Business Ethics*, 53(1-2) 9-16.
- Gambetta, D. (1988). *Trust: Making and breaking cooperative relations*. New York: Basil Blackwell.
- Garten, J. E. (2002). *The politics of fortune: A new agenda for business leaders*. Boston: Harvard Business School Press.
- Gaumnitz, B. R., & Lere, J. C. (2002). Contents of codes of ethics of professional business organizations in the United States. *Journal of Business Ethics*, 35(1), 35-49.
- Georgakopoulou, A., & Goutsos, D. (2004). *Discourse analysis: An introduction* (2nd ed.). Edinburgh, Scotland: Edinburgh University Press.
- Giddens, A. (1990). *The consequences of modernity*. Cambridge: Polity.
- Gillespie, N., Hurley, R., Dietz, G., & Bachmann, R. (2012). Restoring institutional trust after the global financial crisis: A systemic approach. In R. M. Kramer, & T. L. Pittsky (Eds.), *Restoring trust in organizations and leaders: Enduring challenges and emerging answers* (pp. 185-215). Oxford: Oxford University Press.
- Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, 91, 481-510.
- Graves, W. B. (1924). Codes of ethics for business and commercial organization. *International Journal of Ethics*, 35(1) 41-59.
- Gray, R. H. (1990). Business ethics and organisational change. *Managerial Auditing Journal*, 5(2), 12-21.

- Green Jr., S. E., Li, Y., & Nohria, N. (2009). Suspended in self-spun webs of significance: A rhetorical model of institutionalization and institutionally embedded agency. *Academy of Management Journal*, 52(1), 11-36.
- Greenwood, M., & Van Buren III, H. J. (2010). Trust and stakeholder theory: Trustworthiness in the organisation-stakeholder relationship. *Journal of Business Ethics*, 95(3), 425-438.
- Greenwood, R., & Hinings, C. R. (1996). Understanding radical organizational change: Bringing together the old and the new institutionalism. *The Academy of Management Review*, 21(4), 1022-1054.
- Greenwood, R., Suddaby, R., & Hinings, C. R. (2002). Theorizing change: The role of professional associations in the transformation of institutional fields. *The Academy of Management Journal*, 45(1), 58-80.
- Greif, A., & Laitin, D. D. (2004). A theory of endogenous institutional change. *American Political Science Review*, 98(4), 633-652.
- Habermas, J. (1990). *Moral consciousness and communicative action*. Cambridge, MA: The MIT Press.
- Hall, M. A. (2003). The ethics and empirics of trust. In W. B. Bondeson & J. W. Jones (Eds.), *The ethics of managed care: Professional integrity and patient rights* (pp. 109-126). Dordrecht, The Netherlands: Kluwer Academic Publishers.
- Hall, M. A. (2005). The importance of trust for ethics, law, and public policy. *Cambridge Quarterly of Healthcare Ethics*, 14(2), 156-167.
- Halliday, M. A. K. (1978). *Language as social semiotic: The social interpretation of language and meaning*. London: Edward Arnold.
- Halliday, M. A. K., & Hasan, R. (1976). *Cohesion in English*. London: Longman.
- Hardin, R. (2006). *Trust*. Malden, MA: Polity Press.
- Harvard Law Review. (2003). The good, the bad, and their corporate codes of ethics: Enron, Sarbanes-Oxley, and the problems with legislating good behavior. *Harvard Law Review*, 116(7), 2123-2141.
- Herman, S. W. (1992). The modern business corporation and an ethics of trust. *The Journal of Religious Ethics*, 20(1), 111-148.
- Hofstede, G. (1980). *Culture's consequences: International differences in work-related values*. Beverly Hills, CA: Sage.
- Hofstede, G. (1991). *Culture and organizations: Intercultural cooperation and its importance for survival - Software of the mind*. London: McGraw-Hill.

- Holder-Webb, L., & Cohen, J. (2012). The cut and paste society: Isomorphism in codes of ethics. *Journal of Business Ethics*, 107(4), 485-509.
- Hosmer, L. T. (1995). Trust: The connecting link between organizational theory and philosophical ethics. *The Academy of Management Review*, 20(2), 379-403.
- Howarth, D. (2000). *Discourse*. Buckingham, UK: Open University Press.
- Human, S. E., & Provan, K. G. (2000). Legitimacy building in the evolution of small-firm multilateral networks: A comparative study of success and demise. *Administrative Science Quarterly*, 45(2), 327-365.
- Hume, D. (1978). *A treatise of human nature* (L. A. Selby-Bigge & P. H. Nidditch, Eds.). Oxford: Oxford University Press.
- Hunt, B. (2003). *The timid corporation: Why business is terrified of taking risk*. Chichester: John Wiley.
- Husted, B. W. (1998). The ethical limits of trust in business relations. *Business Ethics Quarterly*, 8(2), 233-248.
- Jackson, I. A., & Nelson, J. (2004). *Profits with principles: Seven strategies for delivering value with values*. New York: Currency-Doubleday.
- Jenkins, R. (2001). *Corporate codes of conduct: Self-regulation in a global economy*. Geneva, Switzerland: United Nations.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behaviour, agency cost and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.
- Johnstone, B. (2008). *Discourse analysis* (2nd ed.). Malden, MA: Blackwell.
- Johnstone, B., & Eisenhart, C. (2008). *Rhetoric in detail: Discourse analyses of rhetorical talk and text*. Amsterdam: John Benjamins.
- Jones, G. R., & George, J. M. (1998). The experience and evolution of trust: Implications for cooperation and teamwork. *The Academy of Management Review*, 23(3), 531-546.
- Jones, I., & Pollitt, M. (Eds.). (1998). *The role of business ethics in economic development*. London: Macmillan Press.
- Jones, T. M., & Bowie, N. E. (1998). Moral hazards on the road to "virtual" corporation. *Business Ethics Quarterly*, 8(2), 273-292.
- Joyner, B. E., & Payne, D. (2002). Evolution and implementation: A study of values, business ethics and corporate social responsibility. *Journal of Business Ethics*, 41(4), 297-311.

- Kaptein, M. (2004). Business codes of multinational firms: What do they say? *Journal of Business Ethics*, 50(1), 13-31.
- Kaptein, M. (2011). Toward effective codes: Testing the relationship with unethical behavior. *Journal of Business Ethics*, 99(2), 233-251.
- Kaptein, M., & Schwartz, M. S. (2008). The effectiveness of business codes: A critical examination of existing studies and the development of an integrated research model. *Journal of Business Ethics*, 77(2), 111-127.
- Kaptein, M., & Wempe, J. (1998). Twelve Gordian knots when developing an organizational code of ethics. *Journal of Business Ethics*, 17(8), 853-869.
- Kaptein, M., Klamer, H., & Wieringa, A. (2003). *Debedrijfscode: aanleiding, inhoud, invoering en effectiviteit* [The corporate code of ethics: Cause, content, implementation and effectiveness]. NCW: The Hague.
- Karlberg, M. (2012). Discourse theory and peace. In D. J. Christie (Ed.), *The Encyclopedia of Peace Psychology* (1st ed., pp. 1-5): Wiley-Blackwell.
- Khurana, R., & Nohria, N. (2008). It's time to make management a true profession. *Harvard Business Review*, 86(10), 70-77.
- Kitson, A., & Campbell, R. (1996). *The ethical organisation: Ethical theory and corporate behaviour*. London: Macmillan.
- Koehn, D. (1996). Should we trust in trust? *American Business Law Journal*, 34(2), 183-203.
- Koehn, D. (2003). The nature of and conditions for online trust. *Journal of Business Ethics*, 43(1/2), 3-19.
- Koehn, D. (2005). Integrity as a business asset. *Journal of Business Ethics*, 58(1/3), 125-136.
- Kothari, S. P., Li, X., & Short, J. E. (2009). The effect of disclosures by management, analysts, and business on cost of capital, return volatility, and analyst forecasts: A study using content analysis. *The Accounting Review*, 84(5), 1639-1670.
- KPMG. (2008). *Business codes of the global 200: Their prevalence, content and embedding*. The Netherlands.
- Kramer, R. M. (2012). Institutional trust failures: Insights and lessons from the 9/11 intelligence failures. In R. M. Kramer, & T. L. Pittsky (Eds.), *Restoring trust in organizations and leaders: Enduring challenges and emerging answers* (pp. 69-91). Oxford: Oxford University Press.
- Krippendorff, K. (2013). *Content analysis: An introduction to its methodology* (3rd ed.). Thousand Oaks, CA: Sage.

- Langlois, C. C., & Schlegelmilch, B. B. (1990). Do corporate codes of ethics reflect national character? Evidence from Europe and the United States. *Journal of International Business Studies*, 21(4), 519-539.
- Laufer, W. S. (2007). Law, ethics, and divergent rhetoric. *Business Ethics Quarterly*, 17(3), 441-447.
- Laufer, W. S., & Robertson, D. C. (1997). Corporate ethics initiatives as social control. *Journal of Business Ethics*, 16(10), 1029-1048.
- Leach, J. (2000). Rhetorical analysis. In M. W. Bauer & G. Gaskell (Eds.), *Qualitative researching with text, image and sound* (pp. 208-227). London: Sage.
- Lewicki, R. J., & Bunker, B. B. (1996). Developing and maintaining trust in work relationships. In R. M. Kramer & T. R. Tyler (Eds.), *Trust in organizations: Frontiers of theory and research* (pp. 114-139). Thousand Oaks, CA: Sage.
- Lewicki, R. J., McAllister, D. J., & Bies, R. J. (1998). Trust and distrust: New relationships and realities. *The Academy of Management Review*, 23(3), 438-458.
- Lewis, L. D., & Weigert, A. (1985). Trust as a social reality. *Social Forces*, 63(4), 967-985.
- Long, B. S., & Driscoll, C. (2008). Codes of ethics and the pursuit of organizational legitimacy: Theoretical and empirical contributions. *Journal of Business Ethics*, 77(2), 173-189.
- Lorsch, J. W., Berlowitz, L., & Zelleke, A. (Eds.). (2005). *Restoring trust in American business*. Cambridge, MA: The MIT Press.
- Luhmann, N. (1979). *Trust and power*. Chichester, UK: John Wiley & Sons.
- Lux, K. (1990). *Adam Smith's mistake*. Boston, MA: Shambala Press.
- Lyons, B., & Mehta, J. (1997). Contracts, opportunism and trust: Self-interest and social orientation. *Cambridge Journal of Economics*, 21(2), 239-257.
- MacIntyre, A. (1998). *A short history of ethics*. London: Routledge.
- Magness, V. (2006). Strategic posture, financial performance and environmental disclosure. *Accounting, Auditing & Accountability Journal*, 19(4), 540-563.
- March, J. G. (1981). Decisions in organizations and theories of choice. In A. H. Van de Ven & W. F. Joyce (Eds.), *Perspectives on organization design and behavior* (pp. 205-244). New York: Wiley.
- March, J. G. (1994). *A primer on decision making: How decisions happen*. New York: Free Press.

- Mayer, R. C., Davis, J. H., & Schoorman, F.D. (1995). An integrative model of organizational trust. *The Academy of Management Review*, 20(3), 709-734.
- McCloskey, D. N. (1994). How to do a rhetorical analysis, and why. In R. E. Backhouse (Ed.), *New directions in economic methodology* (pp. 319-342). New York: Routledge.
- McCloskey, D. N. (1998). *The rhetoric of economics* (2nd ed.). Madison, WI: The University of Wisconsin Press.
- McCloskey, D. N. (2006). *The bourgeois virtues: Ethics for an age of commerce*. Chicago: the University of Chicago Press.
- McMahon, T. F. (1991). A reaction to Vogel's "The roots of business". *Business Ethics Quarterly*, 1(2), 211-222.
- McMillan, K. P. (2004). Trust and the virtues: A solution to the accounting scandals. *Critical Perspectives on Accounting*, 15(6/7), 943-953.
- Melé, D. (2006). Religious foundation of business ethics. In M. J. Epstein & K. O. Hanson (Eds.), *The accountable corporation* (Vol. 2, pp. 11-43). Westport, CT: Praeger.
- Meyer, J., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology*, 83(2), 340-363.
- Milne, M. J., & Adler, R. W. (1999). Exploring the reliability of social and environmental disclosures content analysis. *Accounting, Auditing & Accountability Journal*, 12(2), 237-256.
- Misztal, B. A. (1996). *Trust in modern societies*. Cambridge, UK: Polity Press.
- Mitnick, B. M., & Mahon, J. R. (2007). The concept of reputational bliss. *Journal of Business Ethics*, 72(4), 323-333.
- Mizruchi, M. S., & Fein, L. C. (1999). The social construction of organizational knowledge: A study of the uses of coercive, mimetic, and normative isomorphism. *Administrative Science Quarterly*, 44(4), 653-683.
- Moore, G. (2012). The virtue of governance, the governance of virtue. *Business Ethics Quarterly*, 22(2), 293-318.
- Murphy, P. E. (1995). Corporate ethics statements: Current status and future prospects. *Journal of Business Ethics*, 14(9), 727-740.
- Nannestad, P. (2008). What have we learned about generalized trust, if anything? *Annual Review of Political Science*, 11, 413-436.
- National Association of Securities Dealers Automated Quotations (NASDAQ). (2003). *SEC approves NASDAQ corporate governance rules*. New York: NASDAQ.

- National Commission on Fraudulent Reporting (Treadway Commission). (1987). *Report of the national commission on fraudulent financial reporting*. New York.
- Neu, D. (1991a). New stock issues and the institutional production of trust. *Accounting, Organizations and Society*, 16(2), 185-200.
- Neu, D. (1991b). Trust, contracting and the prospectus process. *Accounting, Organizations and Society*, 16(3), 243-256.
- Neuendorf, K. A. (2002). *The content analysis guidebook*. Thousand Oaks, CA: Sage.
- New York Stock Exchange (NYSE). (2004). *Listed company manual*. New York: NYSE.
- Newberg, J. A. (2005). Corporate codes of ethics, mandatory disclosure, and the market for ethical conduct. *Vermont Law Review*, 29, 253-295.
- Newbert, S. L. (2003). Realizing the spirit and impact of Adam Smith's capitalism through entrepreneurship. *Journal of Business Ethics*, 46(3), 251-261.
- Nicholson, N. (1994). Ethics in organizations: A framework for theory and research. *Journal of Business Ethics*, 13(8), 581-596.
- Nielsen, R. P. (2010). High-leverage finance capitalism, the economic crisis, structurally related ethics issues, and potential reforms. *Business Ethics Quarterly*, 20(2), 299-330.
- Norberg, P. (2009). "I don't care that people don't like what I do" - Business codes viewed as invisible or visible restrictions. *Journal of Business Ethics*, 86(2), 211-225.
- Noreen, E. (1988). The economics of ethics: A new perspective on agency theory. *Accounting, Organizations and Society*, 13(4), 359-369.
- Nørreklit, H. (2003). The balanced scorecard: What is the score? A rhetorical analysis of the balanced scorecard. *Accounting, Organizations and Society*, 28(6), 591-619
- O'Hara, K. (2004). *Trust: From Socrates to spin*. Duxford, UK: Icon.
- O'Neill, O. (2002). *A question of trust*. BBC Reith Lectures 2002 – Radio 4.
- Oliverio, M. E. (1989). The implementation of a code of ethics: The early efforts of one entrepreneur. *Journal of Business Ethics*, 8(5), 367-374.
- Olsen, R. (2004). Editorial commentary: Trust, complexity and the 1990s market bubble. *Journal of Behavioral Finance*, 5(4) 186-191.
- Oosterhoff, F. (2001). *Ideas have a history*. Lanham, MD: University Press of America.
- Organization for Economic Cooperation and Development (OECD). (2001). *Codes of corporate conduct: Expanded view of their contents*. Paris: OECD.

- Paine, L. S. (2003). *Value shift: Why companies must merge social and financial imperative to achieve superior performance*. New York: McGraw Hill.
- Paltridge, B. (2012). *Discourse analysis* (2nd ed.). London: Bloomsbury.
- Parker, M., & Pearson, G. (2005). Capitalism and its regulation: A dialogue on business and ethics. *Journal of Business Ethics*, 60(1), 91-101.
- Patelli, L., & Pedrini, M. (2014). Is the optimism in CEO's letters to shareholders sincere? Impression management versus communicative action during the economic crisis. *Journal of Business Ethics*, 124(1), 19-34.
- Phillips, N., & Hardy, C. (2002). *Discourse analysis: Investigating processes of social construction*. Thousand Oaks, CA: Sage.
- Phillips, N., Lawrence, T. B., & Hardy, C. (2004). Discourse and institutions. *The Academy of Management Review*, 29(4), 635-652.
- Pitt, H. L., & Groskaufmanis, K. A. (1990). Minimizing corporate civil and criminal liability: A second look at corporate codes of conduct. *The Georgetown Law Journal*, 78, 1559-1654.
- Pollach, I. (2003). Communicating corporate ethics on the World Wide Web: A discourse analysis of selected company web sites. *Business & Society*, 42(2), 277-287.
- Potter, P. (1997). Discourse analysis as a way of analysing naturally occurring talk. In D. Silverman (Ed.), *Qualitative research* (pp. 144-160). London: Sage.
- Powell, W. W., & Maggio, P. J. (1991). (Eds.) *The new institutionalism in organizational analysis*. Chicago: The University of Chicago Press.
- PricewaterhouseCoopers LLP (PwC). (2014). *Global top 100 companies by market capitalisation*. UK: PricewaterhouseCoopers LLP.
- Preston, A. M., Cooper, D. L., Scarbrough, D. P., & Chilton, R. C. (1995). Changes in the code of ethics of the U.S. accounting profession, 1917-1988: The continual quest for legitimation. *Accounting, Organizations and Society*, 20(6), 507-546.
- Putnam, R. (1993). *Making democracy work: Civic traditions in modern Italy*. Princeton, NJ: Princeton University Press.
- Robertson, J. M. (1971, reprint of the 1920 ed.). *A short history of morals*. New York: B. Franklin.
- Rockness, H., & Rockness, J. (2005). Legislated ethics: From Enron to Sarbanes-Oxley, the impact on corporate America. *Journal of Business Ethics*, 57(1), 31-54.
- Rosanas, J. M., & Velilla, M. (2003). Loyalty and trust as the ethical bases of organizations. *Journal of Business Ethics*, 44(1), 49-59.

- Rossouw, G. J. (1994). Business ethics: Where have all the Christians gone? *Journal of Business Ethics*, 13(7), 557-570.
- Rossouw, G. J. (2005). Business ethics and corporate governance: A global survey. *Business & Society*, 44(1), 32-39.
- Rotter, J. B. (1967). A new scale for the measurement of interpersonal trust. *Journal of Personality*, 35, 651-665.
- Rousseau, D. M., Sitkin, S. B., Burt, R. S., & Camerer, C. (1998). Introduction to special topic forum: Not so different after all: A cross-discipline view of trust. *The Academy of Management Review*, 23(3), 393-404.
- Rowland, W. (2005). *Greed, Inc.: Why corporations rule our world and how we let it happen*. Toronto: Thomas Allen Publishers.
- Ryan, L. V., & Buchholtz, A. K. (2001). Trust, risk, and shareholder decision making: An investor perspective on corporate governance. *Business Ethics Quarterly*, 11(1), 173-193.
- Sama, L. M. (2006). Interactive effects of external environmental conditions and internal firm characteristics on MNE's choice of strategy in the development of a code of conduct. *Business Ethics Quarterly*, 16(2), 137-165.
- Sanderson, G. R., & Varner, I. I. (1984). What is wrong with corporate codes of conduct? *Management Accounting (U.S.)*, 84, 28-31, 35.
- Schmidt, V. A. (2008). Discursive institutionalism: The explanatory power of ideas and discourse. *Annual Review of Political Science*, 11, 303-326.
- Schnebel, E., & Bienert, M. A. (2004). Implementing ethics in business organizations. *Journal of Business Ethics*, 53(1/2), 203-211.
- Scholtens, B., & Dam, L. (2007). Cultural values and international differences in business ethics. *Journal of Business Ethics*, 75(3), 273-284.
- Scott, E. D. (2002). Organizational moral values. *Business Ethics Quarterly*, 12(1), 33-55.
- Scott, W. R. (1987). The adolescence of institutional theory. *Administrative Science Quarterly*, 32(4), 493-511.
- Scott, W. R. (1995). *Institutions and organizations*. Thousand Oaks, CA: Sage.
- Scott, W. R. (2001). *Institutions and organizations*. Thousand Oaks, CA: Sage.
- Scott, W. R. (2003). *Organizations: Rational, natural and open systems* (5th ed.). Upper Saddle River, NJ: Prentice-Hall.

- Scott, W. R. (2014). *Institutions and organizations: Ideas, interests, and identities* (4th ed.). Los Angeles, CA: Sage.
- Scott, W. R., & Christensen, S. (Eds.). (1995). *The institutional construction of organizations: International and longitudinal studies*. Thousand Oaks, CA: Sage.
- Scott, W. R., & Meyer, J. W. (Eds.). (1994). *Institutional environments and organizations: Structural complexity and individualism*. Thousand Oaks, CA: Sage.
- Selzer, J. (2004). Rhetorical analysis: Understanding how texts persuade readers. In C. Bazerman & P. Prior (Eds.), *What writing does and how it does it: An introduction to analyzing texts and textual practices* (pp. 279-307). Mahwah, NJ: Lawrence Erlbaum.
- Selznick, P. (1996). Institutionalism "old" and "new". *Administrative Science Quarterly*, 41(2), 270-277.
- Shapiro, S. P. (2005). Agency theory. *Annual Review of Sociology*, 31, 263-284.
- Shaw, W. H. (2014). *Business ethics* (8th ed.). Belmont, CA: Wadsworth/Cengage Learning.
- Shepard, J. M., Betz, M., & O'Connell, L. (1997). The proactive corporation: Its natures and causes. *Journal of Business Ethics*, 16(10), 1001-1010.
- Sheppard, B. H., & Tuchinsky, M. (1996). Micro-OB and the network organization. In R. M. Kramer & T. R. Tyler (Eds.), *Trust in organizations: Frontiers of theory and research* (pp. 140-165). Thousand Oaks, CA: Sage.
- Shocker, A. D., & Sethi, S. P. (1973). An approach to incorporating societal preference in developing corporate action strategies. *California Management Review*, 15(4), 97-108.
- Sikka, P. (2009). Financial crisis and the silence of the auditors. *Accounting, Organisations and Society*, 34(6/7), 868-873.
- Sillince, J. A. A., & Barker, J. R. (2012). A tropological theory of institutionalization. *Organization Studies*, 33(1), 7-38.
- Simons, R. (1995). Control in an age of empowerment. *Harvard Business Review*, 73(2), 80-88.
- Singh, J. B. (2011). Determinants of the effectiveness of corporate codes of ethics: An empirical study. *Journal of Business Ethics*, 101(3), 385-395.
- Singh, J., Carasco, E., Svensson, G., Wood, G., & Callaghan, M. (2005). A comparative study of the contents of corporate code of ethics in Australia, Canada and Sweden. *Journal of World Business*, 40(1), 91-109.

- Smith, A. (1759). *The theory of moral sentiments*. Edited by D. D. Raphael, & A. L. Macfie, (1976). Oxford: Clarendon Press.
- Smith, A. (1776). *An inquiry into the nature and causes of the wealth of nations*. Edited by R. H. Campbell, A. S. Skinner, & W. B. Todd, (1976). Oxford: Clarendon Press.
- Smith, M., Taffler, R. J. (2000). The chairman's statement: A content analysis of discretionary narrative disclosures. *Accounting, Auditing & Accountability Journal*, 12(5) 624-646.
- Sobczak, A. (2003). Codes of conduct in subcontracting networks: A labour law perspective. *Journal of Business Ethics*, 44(2/3), 225-234.
- Soule, E. (1998). Trust and managerial responsibility. *Business Ethics Quarterly*, 8(2) 249-272.
- Southgate, G. W. (1962). *English economic history*. London: J. M. Dent and Sons.
- Stevens, B. (1994). An analysis of corporate ethical code studies: "Where do we go from here?" *Journal of Business Ethics*, 13(1), 63-69.
- Stevens, B. (1996). Using the competing values framework to assess corporate ethical codes. *Journal of Business Communication*, 33(1), 71-84.
- Stevens, B. (2008). Corporate ethical codes: Effective instruments for influencing behavior. *Journal of Business Ethics*, 78(4), 601-609.
- Stevens, B. (2009). Corporate ethical codes as strategic documents: An analysis of success and failure. *Electronic Journal of Business Ethics and Organization Studies* 14(2), 14-20.
- Stevens, B., & Buechler, S. (2013). An analysis of the Lehman Brothers code of ethics and the role it played in the firm. *Journal of Leadership, Accountability and Ethics*, 10(1), 43-57.
- Stillar, G. F. (1998). *Analyzing everyday texts. Discourse, rhetoric and social perspectives*. Thousand Oaks, CA: Sage.
- Stone, C. D. (1975). *Where the law ends*. New York: Harper & Row.
- Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20(3), 571-610.
- Suddaby, R., & Greenwood, R. (2005). Rhetorical strategies of legitimacy. *Administrative Science Quarterly*, 50(1), 35-67.
- Svensson, G., Wood, G., Singh, J., & Callaghan, M. (2009). Implementation, communication and benefits of corporate codes of ethics: An international and

- longitudinal approach for Australia, Canada and Sweden. *Business Ethics: A European Review*, 18(4), 389-407.
- Sztompka, P. (1999). *Trust: A sociological theory*. Cambridge: Cambridge University Press.
- Tapscott, D., & Ticoll, D. (2003). *The naked corporation*. New York: Free Press.
- The New Lexicon Webster's Dictionary of the English Language. (1988). New York: Lexicon Publications, Inc.
- The Securities and Exchange Commission (SEC). (2002). *SEC proposes additional disclosures, prohibitions to implement: Sarbanes-Oxley Act*. Washington, DC: The Securities and Exchange Commission.
- Thomas, T., Schermerhorn Jr, J., Dienhart, J. W., & Bartles, D. L. (2004). Strategic leadership of ethical behavior in business [and executive commentary]. *The Academy of Management Executive (1993-2005)*, 18(2), 56-68.
- Tyler, T. R. (1990). *Why people obey the law*. New Haven, CT: Yale University Press.
- Uslaner, E. M. (2002). *The moral foundations of trust*. Cambridge, UK: Cambridge University Press.
- van Luijk, H. (2006). Business ethics: How far have we come? – A European perspective. In M. J. Epstein & K. O. Hanson (Eds.), *The accountable corporation* (Vol. 2, pp. 59-80). Westport, CT: Praeger.
- van Zolingen, S. J., & Honders, H. (2010). Metaphors and the application of a corporate code of ethics. *Journal of Business Ethics*, 92(3), 385-400.
- Verbos, A. K., Gerard, J. A., Forshey, P. R., Harding, C. S., & Miller, J. S. (2007). The positive ethical organization: Enacting a living code of ethics and ethical organizational identity. *Journal of Business Ethics*, 76(1), 17-33.
- Vogel, D. (1991). The ethical roots of business ethics. *Business Ethics Quarterly*, 1(1), 101-120.
- Waddock, S. (2006). *Leading corporate citizens: Vision, values, value added* (2nd ed.). Boston, MA: McGraw-Hill.
- Weaver, G. R. (1993). Corporate codes of ethics: Purpose, process and content issues. *Business and Society*, 32(1), 44-58.
- Weaver, G. R. (1995). Does ethics code design matter? Effects of ethics code rationales and sanctions on recipients' justice perceptions and content recall. *Journal of Business Ethics*, 14(5), 367-385.

- Weaver, G. R., Trevino, L. K., & Cochran, P. L. (1999a). Corporate ethics practices in the mid-1990's: An empirical study of the Fortune 1000. *Journal of Business Ethics*, 18(3), 283-294.
- Weaver, G. R., Trevino, L. K., & Cochran, P. L. (1999b). Integrated and decoupled corporate social performance: Management commitments, external pressures, and corporate ethics practices. *The Academy of Management Journal*, 42(5), 539-552.
- Weber, M. (1930). *The protestant ethic and the spirit of capitalism*. Translated by T. Parsons. New York: Charles Scribner's Sons.
- Weber, R. P. (1990). *Basic content analysis* (2nd ed.). Newbury Park, CA: Sage.
- Webley, S., & Werner, A. (2008). Corporate codes of ethics: Necessary but not sufficient. *Business Ethics: A European Review*, 17(4), 642-642.
- Weick, K. E. (1995). *Sensemaking in organizations*. Thousand Oaks, CA: Sage.
- Weiss, J. W. (1994). *Business ethics: A managerial, stakeholder approach*. Belmont, CA: Wadsworth.
- Weller, S. (1988). The effectiveness of corporate codes of ethics. *Journal of Business Ethics*, 8(5), 389-395.
- Wells, T., & Graafland, J. (2012). Adam Smith's bourgeois virtues in competition. *Business Ethics Quarterly*, 22(2), 319-350.
- Wetherell, M., Taylor, S., & Yates, S. J. (2004). *Discourse theory and practice: A reader*. London: Sage/The Open University.
- White, B. J., & Montgomery, B. R. (1980). Corporate codes of conduct. *California Management Review*, 23(2), 80-87.
- Wicks, A. C., Berman, S. L., & Jones, T. M. (1999). The structure of optimal trust: Moral and strategic implications. *Academy of Management Review*, 24(1), 99-116.
- Williamson, O. E. (1993). Calculativeness, trust, and economic organization. *Journal of Law and Economics*, 36(1 – Part 2), 453-486.
- Wilson, J. Q. (1989). Adam Smith on business ethics. *California Management Review*, 32(1), 59-72.
- Winkler, I. (2011). The representation of social actors in corporate codes of ethics. How codes language positions internal actors. *Journal of Business Ethics*, 101(4), 653-665.
- Wood, G. (2000). A cross cultural comparison of the contents of codes of ethics: USA, Canada and Australia. *Journal of Business Ethics*, 25(4), 287-298.

- Wood, G., & Rimmer, M. (2003). Codes of ethics: What are they really and what should they be? *International Journal of Value-Based Management*, 16(2), 181-195.
- Wren, D. A. (2000). Medieval or modern? A scholastic's view of business ethics, circa 1430. *Journal of Business Ethics*, 28(2), 109-119.
- Wren, D. A., & Bedeian, A.G. (2009). *The evolution of management thought* (6th ed.). Hoboken, NJ: John Wiley & Sons.
- Wright, C., & Rwabizambuga, A. (2006). Institutional pressures, corporate reputation, and voluntary codes of conduct: An examination of the Equator Principles. *Business and Society Review*, 111(1), 89-117.
- Young, J. J. (2003). Constructing, persuading and silencing: The rhetoric of accounting standards. *Accounting, Organizations and Society*, 28(6), 621-638.
- Yuthas, K., Rogers, R., & Dillard, J. F. (2002). Communicative action and corporate annual reports. *Journal of Business Ethics*, 41(1/2), 141-157.
- Zingales, L. (2009). The future of securities regulation. *Journal of Accounting Research*, 47(2), 391-425.
- Zucker, L. G. (1986). Production of trust: Institutional sources of economic structure, 1840-1920. In L. L. Cummings & B. M. Staw (Eds.), *Research in organizational behaviour*, 8, (pp. 53-111). Greenwich, CT: JAI Press.

APPENDICES

APPENDIX 5.1 Rhetorical Data

(Source of company names, rank and market capitalisation – PwC 2014)

Company	Rank	Market Cap'n (US\$bn)	Country	Industry	Code		Ethics related material	Listing	
					Yes	No		NYSE	Others
Apple Inc	1	469	United States	Technology	x				NASDAQ
Exxon Mobil Corp	2	416	United States	Oil & Gas	x			x	
Google Inc	3	409	United States	Technology					NASDAQ
Microsoft Corp	4	318	United States	Technology	x				NASDAQ
Berkshire Hathaway Inc	5	286	United States	Financials	x			x	
Roche Holding AG	6	266	Switzerland	Health Care	x				SIX
Johnson & Johnson	7	261	United States	Health Care	x			x	
General Electric Co	8	256	United States	Industrials	x			x	
Wells Fargo & Co	9	244	United States	Financials	x			x	
Nestlé SA	10	244	Switzerland	Consumer Goods	x				SIX EURONE XT
Wal-Mart Stores Inc	11	242	United States	Consumer Services	x			x	
Royal Dutch Shell PLC	12	238	United Kingdom	Oil & Gas	x				LSE
PetroChina Co Ltd	13	225	China	Oil & Gas	x		CG section	x	
Novartis AG	14	224	Switzerland	Health Care	x			x	
Chevron Corp	15	220	United States	Oil & Gas	x			x	
JPMorgan Chase & Co	16	215	United States	Financials	x			x	
Procter & Gamble Co	17	213	United States	Consumer Goods	x			x	
Samsung Electronics Co Ltd	18	209	South Korea	Consumer Goods	x				KRX/ LSE
Pfizer Inc	19	205	United States	Health Care	x			x	
HSBC Holdings PLC	20	199	United Kingdom	Financials	x				LSE
Toyota Motor Corp	21	197	Japan	Consumer Goods	x			x	TYO/ LSE
Verizon Communications Inc	22	197	United States	Telecommunications	x			x	
ICBC Ltd	23	196	China	Financials		x	CSR report		SSE/ SEHK
IBM Corp	24	193	United States	Technology	x			x	
China Mobil Ltd	25	191	Hong Kong	Telecommunications	x			x	
BHP Billiton Ltd	26	178	Australia	Basic Materials	x			x	LSE
Oracle Corp	27	176	United States	Technology	x			x	
Bank of America Corp	28	175	United States	Financials	x			x	
Facebook Inc	29	175	United States	Technology	x				NASDAQ
China Construction Bank Corp	30	171	China	Financials		x	CG section		SSE/ SEHK
Anheuser-Busch InBev SA	31	169	Belgium	Consumer Goods	x			x	EURONE XT
The Coca Cola Co	32	168	United States	Consumer Goods	x			x	
Merck & Co Inc	33	168	United States	Health Care	x			x	
Amazon.com Inc	34	166	United States	Consumer Services	x				NASDAQ
AT&T Inc	35	166	United States	Telecommunications	x			x	
BP PLC	36	156	United Kingdom	Oil & Gas	x				LSE
Total SA	37	154	France	Oil & Gas	x			x	
Tencent Holdings Ltd	38	149	China	Technology		x	CG section		SEHK
Citigroup Inc	39	147	United States	Financials	x			x	
Walt Disney Co	40	142	United States	Consumer Services	x			x	
Sanofi SA	41	138	France	Health Care	x			x	
Visa Inc	42	137	United States	Financials	x			x	
GlaxoSmithKline PLC	43	136	United Kingdom	Health Care	x			x	
Comcast Corp	44	134	United States	Consumer Services	x				NASDAQ
Philip Morris International Inc	45	128	United States	Consumer Goods	x			x	
Gilead Sciences Inc	46	127	United States	Health Care	x				NASDAQ
Qualcomm Inc	47	127	United States	Technology	x				NASDAQ
Agricultural Bank of China Ltd	48	124	China	Financials		x	CSR report		SEHK/ SSE
Intel Corp	49	123	United States	Technology	x				NASDAQ
PepsiCo Inc	50	122	United States	Consumer Goods	x			x	

CG section (Corporate Governance section)

CSR report (Corporate Social Responsibility Report)

BMAD – Madrid Stock Exchange
 FWB – Frankfurt Stock Exchange
 MCE – Moscow Stock Exchange
 SSE – Shanghai Stock Exchange
 XETRA – German Stock Exchange

EPA – EURONEXT Paris
 KRX – Korean Stock Exchange
 SIX – Swiss Stock Exchange
 TSE – Toronto Stock Exchange

EURONEXT – Pan-European Stock Exchange
 LSE – London Stock Exchange
 SEHK – Hong Kong Stock Exchange
 TYO – Tokyo Stock Exchange

APPENDIX 5.1 (Cont'd) Rhetorical Data

(Source of company names, rank and market capitalisation – PwC 2014)

Company	Rank	Market Cap'n (US\$bn)	Country	Industry	Code		Ethics related material	Listing	
					Yes	No		NYSE	Others
Schlumberger NV	51	121	United States	Oil & Gas	x			x	
Unilever NV	52	121	Netherlands	Consumer Goods	x			x	LSE
Volkswagen AG	53	120	Germany	Consumer Goods	x				XETRA
Siemens AG	54	118	Germany	Industrials	x				XETRA
Bayer AG	55	118	Germany	Basic Materials	x				FWB
Home Depot Inc	56	116	United States	Consumer Services	x			x	
Bank of China Ltd	57	115	China	Financials		x	CSR report		SEHK/SSE
Ambev SA	58	113	Brazil	Consumer Goods	x			x	
Cisco Systems Inc	59	112	United States	Technology	x			x	
Vodafone Group PLC	60	110	United Kingdom	Consumer Goods	x			x	LSE
Commonwealth Bank	61	108	Australia	Financials	x				ASX
Rio Tinto PLC	62	107	United Kingdom	Basic Materials	x			x	LSE
United Technologies Corp	63	107	United States	Industrials	x			x	
BASF SE	64	106	Switzerland	Basic Materials	x				XETRA
NovoNordisk A/S	65	106	Denmark	Health Care	x			x	
Banco Santander SA	66	105	Spain	Financials	x			x	
Allied Irish Banks PLC	67	104	Ireland	Financials	x			x	
British American Tobacco PLC	68	103	United Kingdom	Consumer Goods	x				LSE
BNP Paribas SA	69	102	France	Financials	x				EURONE
Sinopec Corp	70	102	China	Oil & Gas	x			x	XT LSE/ SEHK/ SSE
L'Oreal SA	71	102	France	Consumer Goods	x				EPA
Daimler AG	72	100	Germany	Consumer Goods	x				XETRA
SAP AG	73	99	Germany	Technology	x			x	
Lloyds Banking Group PLC	74	99	United Kingdom	Financials	x				LSE
American Express Co	75	97	United States	Financials	x			x	NASDAQ
Boeing Co	76	96	United States	Industrials	x			x	
LVMH SA	77	95	France	Consumer Goods	x				EPA
McDonald's Corp	78	94	United States	Consumer Services	x			x	
Royal Bank of Canada	79	94	Canada	Financials	x			x	
Amegen Inc	80	94	United States	Health Care	x				NASDAQ
Westpac Banking Corp	81	93	Australia	Financials	x			x	
TSMC Ltd	82	92	Taiwan	Technology	x		CG section	x	
MasterCard Inc	83	92	United States	Technology	x			x	
Gazprom OAO	84	92	Russia	Oil & Gas	x				MCX/ LSE/ FWB
SABIC SJSC	85	92	Saudi Arabia	Basic Materials	x				SASE
Softbank Corp	86	90	Japan	Telecommunications		x	CSR report		TYO
Inditex S.A.	87	90	Spain	Consumer Goods	x				BMAD
3M Co	88	89	United States	Industrials	x			x	NASDAQ
Bristol-Myers Squibb Co	89	89	United States	Health Care	x			x	
United Parcel Service Inc	90	88	United States	Industrials	x			x	
Petrobras SA	91	88	Brazil	Oil & Gas	x			x	BMAD
Eni SpA	92	88	Italy	Oil & Gas	x			x	
CVS Caremark Corp	93	86	United States	Consumer Services	x			x	
Statoil ASA	94	84	Norway	Oil & Gas	x			x	
Ecopetrol SA	95	84	Colombia	Oil & Gas	x			x	TSX
ANZ Banking Group Ltd	96	84	Australia	Financials	x				ASX/ NZX
Toronto-Dominion Bank	97	83	Canada	Financials	x			x	TSX
Union Pacific Corp	98	82	United States	Industrials	x			x	
ConocoPhillips	99	82	United States	Oil & Gas	x			x	
AbbVie Inc	100	81	United States	Health Care	x			x	NASDAQ

CG section (Corporate Governance section)

CSR report (Corporate Social Responsibility Report)

BMAD – Madrid Stock Exchange
FWB – Frankfurt Stock Exchange
MCE – Moscow Stock Exchange
SSE – Shanghai Stock Exchange
XETRA – German Stock Exchange

EPA – EURONEXT Paris
KRX – Korean Stock Exchange
SIX – Swiss Stock Exchange
TSE – Toronto Stock Exchange

EURONEXT – Pan-European Stock Exchange
LSE – London Stock Exchange
SEHK – Hong Kong Stock Exchange
TYO – Tokyo Stock Exchange

APPENDIX 5.2
Research Instrument – Coding Frame (Complete set)

CATEGORY / THEME	CODING RULE
Generality	
CEO/Chairman statement	Does the code show leadership commitment to the values and topics highlighted in it?
Purpose of code	Does the code mention its purpose?
Authority of code	Does the code indicate that it has the company's authority?
Compliance measures and sanctions	Does the code indicate that compliance is mandatory?
Global presence	Is there any reference in the code to the global/international community?
Continuous improvement (code revision)	Is the code a living document updated to meet changing conditions?
Exercise of judgement	Does the code imply the need for judgement given the impossibility to cover all eventualities?
Values and Commitment	
Company goals, mission and philosophy	Does the code indicate corporate goals, mission, and business philosophy?
Values, norms, principles	Does the code include certain core values (e.g., integrity, honesty, trust, etc.)?
Defining terms used for core values	Does the code clearly define the core values of the company?
Compliance with laws, rules, and regulations	Does the code require compliance with all pertinent laws, rules and regulations?
Responsibility to employees	Does the code identify the responsibility towards company's employees?
Responsibility to external stakeholders	Does the code identify the responsibility towards customers, business partners, suppliers, etc.?
Responsibility to society at large	Does the code identify the company's responsibility towards society at large?
Responsibility to the environment	Does the code identify the company's responsibility to protect the environment?
Corporate transparency	Does the code show willingness to disclose information?
Financial integrity	Does the code identify company's commitment to proper recordkeeping & financial reporting?
Openness for dialogue	Does the code show company's willingness to engage in dialogue with its stakeholders?
Education and training	Does the code recognise the need to provide education and training opportunities to employees?
Workplace Conduct	
Interpersonal relationships	Does the code recognise the need to maintain good working relationships within and outside?
Product safety and quality	Does the code recognise the need to ensure quality and safety of product?
Service quality	Does the code recognise the need to ensure quality of services?
Competition	Does the code recognise the need to compete fairly?
Human rights	Does the code recognise the need to support universal human rights?
Diversity and inclusion	Does the code recognise the need to value the uniqueness of individuals & their contributions?
Conflicts of interest	Does the code recognise the need to avoid acting in conflict with the best interests of the company?
Confidentiality	Does the code recognise the importance of safeguarding confidential information?
Discrimination and harassment	Does the code highlight the company policy on discrimination and harassment?
Health and Safety	Does the code recognise the need to ensure health and safety in the workplace?
Financial crimes	Does the code mention the policy on all financial crimes, domestic and foreign?
Substance abuse	Does the code recognise the need to prohibit illegal drugs, alcohol, and other substances?
Corporate security	Does the code mention the policy on protecting company property and confidential information?
Gifts and entertainment	Does the code mention the policy on gifts and entertainment?
Political activities	Does the code recognise the need to participate in political activities ethically and lawfully?
Use of company assets	Does the code recognise the importance of the proper use of company assets (tangible & intangible)?

APPENDIX 5.2 (Cont'd)
Research Instrument – Coding Frame (Complete set)

CATEGORY / THEME	CODING RULE
Responsiveness to Stakeholders	
<i>Internal Stakeholders (Employees)</i>	
Employee self-development (education and training) (in general)	Does the code indicate expectations (and opportunities) for professional advancement of employees?
Equal employment opportunity	Does the code highlight the importance of attracting and retaining employees?
Employee rights (information, privacy and termination)	Does the code emphasise fair and just employment policies?
Safe working environment	Does the code recognise the importance of maintaining healthy working environment?
Non-retaliation and reporting of code violation	Does the code commit to non-retaliation & resource availability for reporting code violation?
Responsiveness to Stakeholders	
<i>External Stakeholders</i>	
Shareholder value	Does the code recognise the importance of maintaining financial integrity (performance & reporting)?
Other external stakeholder awareness	Does the code recognise the need to be aware of the needs of customers, suppliers, regulators, media etc.?
Support for political and charitable activities	Does the code highlight the importance of making contributions ethically?
Community commitment	Does the code recognise community responsibility, e.g., supporting public safety and education?
Environmental stewardship	Does the code emphasise the need for efficient use of resources - conservation and preservation?
Compliance and Implementation	
Monitoring & enforcement (procedural)	Does the code mention the monitoring & enforcement procedures of its provisions?
Disciplinary actions	Does the code mention the disciplinary procedures against employees?
Training (on procedural matters)	Does the code mention any arrangement to provide training for employees on ethical matters?
Reporting of breaches/Voicing concerns	Does the code encourage employees to report violations and speak out?
Assistance/Hotline/Resources	Does the code mention how employees can get help if they need any clarifications?
Tone and Style	
Authoritarian	Does the code have a tone of command with a strong emphasis on compliance with its provisions?
Negative (predominantly prescriptive)	Does the code use regulative or punitive language to emphasise behaviour to be avoided?
Engaging (more emphasis on encouraging/inspiring)	Does the code use language that is more affirmative and persuasive?
Personal address (First-person perspective - "we" and "our")	Does the code create an impression of conveying management's opinions and beliefs?
Personal address (Second-person perspective - "you"/"your")	Does the code adopt an informal personal approach to employees?
Personal address (Third-person perspective - neutral)	Does the code reflect social distance
Comprehensibility (ease of understanding) - [Scale: 1 - 5]	1=Extremely Difficult; 2=Difficult; 3=Neither Difficult Nor Easy; 4=Easy; 5=Very Easy
Comprehensiveness (attention to detail) - [Scale 1 - 5]	1=Very Brief; 2=Brief; 3=Neither Brief Nor Detailed; 4=Detailed; 5=Very Detailed
Use of comprehension aids (pictures, graphics and typeface sizes) - [Scale 1 - 5]	1=None; 2=Some; 3=Moderate; 4=Extensive; 5=All-encompassing
Use of comprehension aids (Q&A's, FAQ's, examples and cases) - [Scale 1-5]	1=None; 2=Some; 3=Moderate; 4=Extensive; 5=All-encompassing

