MOTIVES FOR CODES OF ETHICS:

Case of a Medium-Sized Consulting Company

Management and organization
Master’s Thesis
March 2011
Supervisors: Johanna Kujala
& Hanna Lehtimäki

Tuuli Humina
ABSTRACT

University of Tampere School of Management, Management and Organization

Author: HUMINA, TUULI
Title: MOTIVES FOR CODES OF ETHICS: Case of a Medium-Sized Consulting Company
Master’s thesis: 80 pages, 3 appendices
Date: March 2011
Key words: Codes of Ethics, Business Ethics, SMEs, Consulting

The number of companies with their own codes of ethics has risen dramatically over the past decade and it has even been suggested that especially for larger, multinational corporations having such a code is a necessary tool of corporate social responsibility. Also most of the existing research on codes of ethics deals with large multinational companies.

The ethical codes go by a number of different names, and their purposes and content are also various and versatile. The names and types are, however, not well-established but instead often overlapping. This makes discussing the topic challenging in both business and academic environments.

The purpose of this study is to understand the phenomenon of code creation and adoption through examining the motives behind such development. This is achieved by examining the existing literature on the topic of codes of ethics and then conducting empirical research on a case company in the process of creating and adopting a code of ethics. The empirical research was conducted through 17 interviews of company members. The interview data was analyzed by utilizing theory driven content analysis technique.

The results suggest that the different reasons for companies to engage in the process of creating and adopting a code of ethics can be divided into four rough and overlapping categories; complying with society’s expectations, creating competitive advantage, risk management and improving organizational culture. The empirical part of the research was consistent with the picture obtained from the literature review, but emphasized some of the factors, such as the importance of positive reputation and competitive advantage more. This is possible due to the size of the company as well as its field of operations.

As for the case company, the research indicated partly incomplete implementation of the code. This manifested itself through some inconsistencies in how the company members experienced the content and affectivity of the code. Further developing the code in order of making it more practical and embedding it into everyday operations of the company is recommended.
1 INTRODUCTION .......................................................................................................................... 5
  1.1 Background for Choosing the Topic ....................................................................................... 5
  1.2 Goal of the Research and Research Questions ...................................................................... 7
  1.3 Definitions, Classifications and History of Codes of Ethics .................................................. 8
  1.4 Research Methodology .......................................................................................................... 13
  1.5 Research Process and Structure of the Thesis ........................................................................ 15
2 LITERATURE REVIEW .................................................................................................................. 17
  2.1 Reasons for Adopting Codes of Ethics .................................................................................... 17
    2.1.1 Proposed Reasons and Benefits of Adopting Codes of Ethics ....................................... 17
    2.1.2 Codes of Ethics and Society’s Expectations and Demands ............................................. 19
    2.1.3 Codes of Ethics and Competitive Advantage ................................................................. 23
    2.1.4 Codes of Ethics as Risk Management ............................................................................. 26
    2.1.5 Codes of Ethics and Ethical Organizational Culture ....................................................... 28
  2.2 Critique on Codes of Ethics ..................................................................................................... 30
  2.3 The Form and Content of Codes of Ethics ............................................................................. 33
  2.4 Implementation of Codes of Ethics .......................................................................................... 42
  2.5 Codes of Ethics in Consulting and HRM Professions ............................................................. 45
  2.6 Codes of Ethics and Small and Medium Sized Companies .................................................... 52
  2.7 Observations on the Literature and the Theoretical Framework ............................................ 54
3 CASE PSYCON .............................................................................................................................. 58
  3.1 Company Description .............................................................................................................. 58
  3.2 Conduction of the Analysis ..................................................................................................... 60
    3.2.1 Research Methods of the Empirical Research ................................................................. 60
    3.2.2 Description of the Interviewee’s Current Position and History at Psycon ..................... 61
  3.3 Results of the Empirical Research ........................................................................................... 62
    3.3.1 The Familiarity With the Company’s Code of Ethics (the Principles behind Operation) .... 62
    3.3.2 The Potential Benefits of a Code of Ethics ..................................................................... 63
    3.3.3 The Perceived Optimal Content, Form and Implementation of the Code ...................... 65
    3.3.4 The Potential Risks and Problems Related to the Code Creation and Other Aspects of the Process ................................................................. 66
  3.4 Summary of the Results and the Modified Framework for Code Creation and Adoption Process .......................................................................................................................... 68
4 DISCUSSION AND CONCLUSIONS ................................................................. 71
4.1 Contribution of the Research and Discussion ........................................... 71
4.2 Managerial Implications and Suggestions for Future Research ...................... 73
4.3 Reliability, Validity and General Evaluation of the Research ......................... 74
REFERENCES .................................................................................. 76
APPENDICES .................................................................................. 81
Appendix 1: Psycon’s Code of Ethics ........................................................... 81
Appendix 2: Outline of the In-Depth Interview Questions .................................... 82
Appendix 3: The Interview Questions Presented of spring 2010 ............................ 83

FIGURES

Figure 1 Different Types of Codes ................................................................. 10
Figure 2 A model of business ethics .............................................................. 22
Figure 3 A conceptual framework on the connection of ethics code commitment and competitive advantage ................................................................. 25
Figure 4 Layers of a (business) code .............................................................. 34
Figure 5 Building Blocks to Ethical Consulting .............................................. 47
Figure 6 Five frequent professional ethics code items governing professional conduct in HRM ................................................................. 51
Figure 7 Theoretical framework of the study .................................................. 56
Figure 8 Modified framework for code creation and adoption process ............... 69

TABLES

Table 1 Location of the interviewees ............................................................... 61
Table 2 Years of employment of the interviewees .............................................. 61
Table 3 Lines of work of the interviewees ....................................................... 61
Table 4 Reported familiarity with the code/Principles behind operation ............... 62
Table 5 Identified potential benefits of a code of ethics in the case of Psycon ........ 64
Table 6 Perceived optimal implementation methods ........................................ 66
Table 7 Perceived potential risks of code adoption and creation process .............. 67
1 INTRODUCTION

1.1 Background for Choosing the Topic

The topic of a company specific code of ethics was first brought to my attention through a university course project conducted in collaboration with a company wishing to create their own code. The case organization, a Finnish medium-sized consulting company offering leadership development and various recruitment related solutions had a long history of emphasizing ethical business practices. While the project, which later became the starting point of this thesis research, was conducted, I came to understand the versatile nature of ethical codes. It appears that the codes are increasingly common among the modern organizations and that they represent various different types and purposes. Additionally, I have a personal interest for the topics of management and human resources related issues, both of which I believe to be particularly closely connected with the notion of ethical business conduct and corporate social responsibility. For these reasons starting the research on the topic of codes of ethics and the case company appeared both interesting and potentially fruitful.

Even though all industries, companies and professions are concerned with business ethics, the topic of Finnish consulting and human resources management companies creating codes of ethics is especially interesting for two reasons: firstly, the use of consultancy services and outsourcing HRM functions has increased significantly during the past decade. Second, it appears that the close relationship between ethics and consulting, management and HRM functions is attracting a considerable amount of attention from media, politicians and the public in general. There seems to be a sometimes heated discussion on going on regarding whether or not these modern industries are operating in a responsible manner.

Ethics mean standards of right conduct. “Ethics is about making decisions on what are good and bad acts, about right and wrong in practical situations.” (Farrell & Farrell 1998, 587) Unfortunately, often there isn’t a complete agreement as to what constitutes
ethical behavior as many practices fall into a gray area. (Hartley 1993, 3) Grace and Cohen (2005, 2) state that matters of ethics are often ambiguous, but at the same time one of the most important sources of motivation and guidance in human conduct. Companies as legal persons are bound by laws and regulations that therefore guide and restrict their behavior. But ethics is not synonymous with law – what is ethical can sometimes be illegal, and many actions done within the law are not ethical. (Hartley 1993, 4) If ethics is separate from moral is debatable, but some still feel these two terms are not synonymous. (Grace & Cohen 2005, 4) Similarly the concept of code of ethics is separate from moral codes and especially legal settings, although often actions condemned by a code of ethics are also considered immoral or even punishable by law. On the other hand, even organizations operating outside the law or generally accepted moral standards can have their own, more or less formal, ethics codes, an anecdotal example of which might be the organized criminal organization mafia and its different forms. Therefore the legal system cannot take the place of ethics or moral considerations, and it is a commonly accepted view that the two have separate purposes. Lundblad (2005, 368) explains that ethics codes are by definition separate from legal rules and that by being entirely voluntary, flexible and vague they complement the strictly binding normative legal system.

Ethical codes are an instrument of corporate social responsibility (Graafland 2004, 132) and indeed it appears that there is a relatively newly found demand for corporate social responsibility. The debate over whether or not the sole duty of corporate management was to look after the interests of the shareholders has been going on more or less since Milton Friedman published his controversial yet groundbreaking book *Capitalism and Freedom* in 1962. While in the past it was common to think that businesses have no responsibilities outside their own, legal business activities, these days this very narrow view on an organization’s responsibilities has almost completely been abandoned. The societies pose many additional obligations on businesses and the public expects companies to behave in an ethical and responsible way. (Lundblad 2005, 386.) It could be said that the bigger the influence of an organization or industry on the economy and therefore also social issues the more is demanded from it. “Power cannot be viewed in isolation from responsibility, and it is this power-responsibility relationship that is the foundation for calls for corporate social responsibility.” (Carroll, 1989, 17) Stakeholder analysis has traditionally been the basis for attempts to strike a balance between the
power and responsibility organizations are believed to have (Lozano 2000, 20). While conducting a proper stakeholder analysis is very useful if not essential for the process of creating and adopting a code of ethics the actual process or theory related to stakeholders is not addressed in this paper.

Research supports the notion that the number of companies with codes of ethics has been increasing; according the research done by Kaptein and KPMG (2008, 4) the rate of code adoption has been on a rise and the number of codes has doubled in the past decade. In 2008 87% of all Fortune Global 200 companies had a code of their own. Older codes are also being updated as companies are paying more and more attention to them. Arguably the adoption and implementation of a code of conduct has today become a standard in operating at least in global business (Lundblad 2005, 385).

1.2 Goal of the Research and Research Questions

The goal of this research is to understand the phenomenon of companies increasingly often creating and adopting codes of ethics by researching the motives behind this development. The context of the research is the Finnish business environment and society. In order to reach this goal, questions relating to the motivators of code adoption are answered.

The research question is as follows:

- **Why do companies create and adopt company specific codes of ethics?**

This research question will be approached and answered through three sub-questions. The research sub-questions are as follows:

- **How has the topic of codes of ethics been addressed by the existing literature?**

- **How does the relatively small size and field of operations of the case company affect the process of code adoption and motives behind it?**
• *How do the members of the case company perceive the potential benefits and risks of the code of ethics adoption process?*

The first sub-question is answered in the literature review chapter where the existing literature on codes of ethics is examined and addressed. The literature review concentrates especially on the topic of possible benefits of codes of ethics, but also issues such as the content and implementation of the codes, critique and the importance of company size and field of operations. Therefore also the second sub question is for a large part answered in the literature review part of this research. The significance of size and field of operations in code creation and adoption process are also illustrated by the empirical research chapter that presents the results gained by analyzing the data acquired through the 17 interviews of the case company members. The third sub-question is answered in the empirical research chapter.

**1.3 Definitions, Classifications and History of Codes of Ethics**

Simply put, the concept of code of ethic refers to a voluntary document distinct from legislation, dealing with ethical issues and as something that is created and used by a company. The concept is, however, fairly challenging to define and explain in simple terms due to its complexity. “Codes (of conduct) issued by companies do not follow a particular pattern. They take many forms.” (Lundblad, 2005, 388) Indeed one thing most scholars and business people seem to agree on is that the codes companies make are various and versatile. Rudolph (2005, 269) states that there are many different kinds of business codes in existence, promulgated by a wide array of operators from the private sector, the public sector and governmental and intergovernmental entities. These codes represent a wide spectrum of approaches for addressing behavior within an organization, but there is much overlap in their goals and objectives. Rudolph (2005, 375) elaborates that the codes can be of any specificity, scope and enforcement. Grace and Cohen (2005, 176-177) also describe codes as having many forms, each species being framed to meet the specific needs of the organization that produced it, all with the common purpose of self-regulation through peer enforcement.
However, the fact that the codes are called by a number of different names makes defining and discussing them complicated. The codes companies make have different objectives, forms and names such as ethical guidelines, codes of ethics, mission statements, corporate credos or codes of conduct. (Lundblad 2005, 368) Muel Kaptein, director at the company KPMG and professor at RSM Erasmus University has conducted extensive research on business codes, their prevalence, content and implementation. In his work Kaptein (2008, 6) refers to these codes as “business codes”, also he states that academics and practitioners use a wide variety of names that refer to different codes, declarations, principles, standards and philosophies. Length-wise these different codes can range from one page statements to detailed guidebooks nearing a hundred pages. In other words the codes are not just the detailed, formal guidebooks that the companies call codes but in the broader sense even short statements, philosophies and such can be understood as codes regardless of what they are called.

While the names are various, there are some ways of classifying the codes that help to assess the wide variety existing codes and their goals and primary contents. These classifications attempt to create order and make naming the codes more systematic. The United Nations has identified five general categories of the codes: model codes, intergovernmental codes, multi-stakeholder codes, trade association codes and company codes. (Rudolph, 2005, 369) These categories tend to overlap to a certain degree, but the company codes are the type most relevant for this particular research. The company codes differ significantly by sector and even by company. These different types include 1) compliance codes; 2) corporate credos; and 3) management philosophy statements. (Rudolph 2005, 375)

Another way of classifying the codes is offered by Grace and Cohen (2005, 181) who argue that while the codes organizations have are often something between the two, it is still important to distinguish between codes of ethics and codes of conduct. They explain that a code of ethics is of a general level, consists of values and principles, offer tools for judgment and is “empowering” and “aspirational”. A code of conduct on the other hand is more specific, consists of prescriptions and directives, aims at uniformity and offers enforceable statements on specific behaviors. Thus the two can be seen as codes of different level and different uses. As for the codes of practice, Grace and Cohen (2005, 181) make a clear distinction between professional codes and business
codes; unlike codes of ethics and codes of conduct that are company specific, professional codes – or codes of practice – and industry codes operate throughout the profession and set the standard for its practitioners. However, in their research on of the characteristics of the ethical codes of professional business associations Tucker et al. (1999, 287) refer to the professional codes as codes of conduct and codes of ethics – this further illustrating the fact that the names and classifications are not well established. In practice the terms overlap, and the employee level as well at the profession specific codes can be incorporated into a corporate level code of ethics or sometimes simply called a code of ethics by themselves.

The two classifications presented by Grace and Cohen (2005, 181) are fairly commonly used in dividing most codes into categories. (See Figure 1)

These two ways of classifying the different codes can be summarized as 1) dividing them into three rough categories where a code of ethics can be characterized as the corporate level ethics guideline, whereas a code of conduct is for employer level and a code of practice deals with professional ethics or 2) dividing them into company specific business codes (codes of ethics and codes of conduct) and professional codes
(codes of practice) that are shared either by a profession or an industry as a whole. However, in practice the terms overlap and the different names and classification are not well-established.

Proposing a descriptive and appropriate definition of the codes of ethics is also an important issue. “A (business) code is a document by and for a company as a guideline for the current and future behavior of its directors, managers and employees.” (Kaptein 2008, 6) This concise definition does not state an explicit goal for the regulation but instead emphasizes the code’s use as a company specific decision making tool. In 2001 a study by OECD dealing with corporate responsibility defined codes (of conduct) as “commitments voluntarily made by companies associations or other entities, which put forward standards and principles for the conduct of business activities in the marketplace.” (Lundblad, 2005, 387) This definition emphasizes the aspect of the codes being voluntary and the purpose of promoting a certain kind of behavior, but does not mention ethics as such. Also, the form is left undefined. The third definition I will introduce is a more detailed, longer definition by the U.S. Securities and Exchange Commission (SEC). The U.S. SEC defined the term code of ethics in rule 33-8177 to be “written standards that are designed to deter wrongdoing and to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely, and understandable disclosure in reports and documents that a public company files with the SEC or includes in other public communications;
- Compliance with applicable governmental laws, rules, and regulations;
- Prompt internal reporting of violations to an appropriate person identified in the code of ethics; and
- Accountability for adherence to the code. (McCraw et al. 2008, 3)

This definition, while having obvious strengths, such as being detailed and explicit on the goal of promoting ethical behavior, is designed especially for the purpose of preventing frauds and other unethical business practices in large U.S. corporations and listed companies. Finally, in the part of their research dealing with business school codes of ethics McCraw et al. (2008, 7) state that any policy statement with a title that implies ethical or behavioral content can also be understood as an ethics code.
In this research the emphasis will be on codes created and used by individual companies but that might incorporate characteristics of professional codes. Regardless of the wide variety of names used in the existing literature I shall refer to the codes as *codes of ethics* or just *codes* in order to emphasize the purpose of self-regulating through guidance in decision making aimed for increasing the ethicality of an organization’s behavior or behavior deemed as morally “correct”. Thus the codes discussed can be various in form and content but are assumed to have at least a reference in them linking them to the concept of ethical behavior. In this research I shall discuss the topic of the code of ethics in its meaning of a *relatively formal, written set of guidelines, a tool created and adopted by an organization in order to ensure, improve or maintain behavior deemed as correct and ethical, often incorporating items and characteristics of codes of conduct or professional ethics codes*. Also, even though similar codes can be constructed by many different kinds of organizations including governmental and non-profit organizations, in this paper the emphasis will be on businesses.

As for the history and development of the codes, codes of different forms have been used to regulate behavior since antiquity; the code of Hammurabi is an example and the Ten Commandments is another (Grace & Cohen, 2005, 176). The modern business codes of conduct can be tracked as far as the early 1930’s, when the International Chamber of Commerce created model codes for advertising, marketing and direct marketing. Also some of the first company specific codes by Johnson and Johnson and Mitsubishi Trading Company were created. The development of codes aimed at promoting socially responsible behavior took off in 1948 with the adoption of the Universal Declaration of Human Rights born in the wake of the Second World War. During the cold war era the international standards of corporate governance began to develop. The many corporate scandals of the 1980’s and the enactment of the US Federal Sentencing Guidelines in 1991 provided further stimuli for the development of the corporate codes of conduct. The growing economic disparities between developed and developing countries and the governments’ inability to address the consequences brought on the need for new international business principles. One of the latest factors to further the companies’ willingness to create codes is the improved effectiveness of the media and internet as ways the companies communicate with the stakeholders and the stakeholders communicate with each other. (Rudolph, 2005, 366-368.) Also Lundblad (2005, 385, 387) believes that the rapid dissemination of information brought
on by modern and sophisticated technology, the corporate scandals of the past decade and legislative measures that followed have contributed to the increased scrutiny on the ethical issues related to the operations of companies. As for the future of the codes, Rudolph (2005, 385) argues that especially the transnational companies will play and ever-increasing role in setting high standards and working to meet those objectives. Stakeholders will keep demanding more and more, and success will depend on the formation and strength of strategic, long-term relationships between key stakeholders – relationships in which ethical practices can be ensured. It could also be argued that in addition to the trends described by Rudolph and Lundblad, the general opinion in the developed countries and around the world becoming more and more demanding regarding the social performance of the companies, the latest large corporate scandals and the emergence of social media as a way of connecting individuals and thus lowering the threshold for organizing and taking action have all contributed to the increasing number of companies creating codes.

1.4 Research Methodology

This research is qualitative in nature, as the goal is to understand and explain a phenomenon of the business world – creation and use of codes of ethics. Qualitative research strives to describe reality in a holistic way in order to discover the true nature of things (Hirsjärvi et al. 2000, 151).

The research method for the empirical part of the research is a traditional single-case study where the unit to be examined is a Finnish medium-sized consulting company dealing with management development and human resources management related solutions. According to Eriksson and Kovalainen (2008, 115), the main purpose in a case study is investigate the case in relation to its historical, economic, technological, social and cultural context. The emphasis of a case study is in producing detailed and holistic knowledge, based on context-rich empirical sources (Eriksson & Kovalainen 2008, 117). Case study is a popular approach in business-related research as it can be used to present complex business issues in an accessible, vivid and personal way (Eriksson & Kovalainen 2008, 116).
The empirical data was collected through 17 interviews, 5 of which were semi-structured and 12 in-depth interviews. The 5 semi-structured interviews were conducted during spring 2010, and the 12 in-depth interviews later in 2010 and in early 2011. A total of 14 different company members were interviewed as three of the interviewees participated in both semi-structured and in-depth interviews. The groups of interviewees consisted of both new and older members of the case company, all in different professional positions. Some of the interviewees had been a part of the code planning process or otherwise championed the code whereas some were considerably less familiar with the process.

Siekkinen (2007, 44-45) states that an in-depth interview, as opposed to common structured interviewing techniques, offers a better chance for acquiring in-depth information. She explains that an in-depth interview is based on informal interaction and deeper social contacts, and that in-depth interviews are especially suitable for learning about past events and issues that the interviewees are either not well aware of or that they are cautious about talking. Choosing in-depth interview as a data-collection method is recommendable when the goal is to study a single, well-defined phenomenon or some new, unusual approach or specialist view. Even though in-depth interviews mainly rely on interviewing techniques where the questions or their order is not predetermined, the interviewer must of course still ask questions for the interview to advance, but the questions should be kept short and easy to understand. (Siekkinen 2007, 53.) These characteristics of in-depth interview technique support the decision of utilizing it in this research as the goal is to gain a deep understanding on the reasons why a specific company has chosen to construct and commit to and code of ethics and what the development process was like. The interviewees were encouraged to freely explain their thoughts and opinions in their own words and in a way that feels natural to them. In an in-depth interview, the job of the interviewer is to help the interviewee to explain his or hers own views on the meanings of things and respect the interviewee’s own way of constructing his or hers responses – what matters is the interviewee’s view on the phenomenon being researched, not the interviewer’s (Siekkinen 2007, 44).

The empirical data was analyzed by using qualitative content analysis. Tuomi and Sarajärvi (2002, 105–106) explain that by utilizing content analysis technique, the research data can be analyzed systematically. The data is cut down to elements which
are then rearranged in a logical manner. According to Eriksson and Kovalainen (2008, 130), in content analysis patterns from the empirical data are identified to compare them with the propositions pre-developed on the basis of existing theory. The content analysis method utilized in analyzing the data was theory driven, deductive, meaning that the categorizing of the data was based on the constructed theoretical framework (Tuomi & Sarajärvi 2002, 116).

The purpose of analyzing qualitative data is to create order in the fragmented data therefore producing new information on the subject under research. The aim of the analysis is to condense and generalize the phenomenon by reorganizing the data for the purpose of making conclusions in a way that does not cause any of the information being lost in the process. The results of the analysis are results of the researcher’s reasoning process, based on the purpose of the research at hand and the researcher’s knowledge on the previous research on the topic. (Eskola & Suoranta 1998, 138, 158.)

### 1.5 Research Process and Structure of the Thesis

The first steps in making of this research were taken in early 2010 when I was part of a team that conducted a research project regarding company specific codes of ethics for the case company Psycon. At that time the first round of interviews was conducted for the purpose of gaining a sufficient understanding of the company’s current situation and the employees’ views on the ethical issues relating to their field of work. The finished report consisted of a short literature review, analysis of the conducted interviews and conclusions with some recommendations on how a code should be constructed. This research project was used as a starting point for this thesis research.

During the summer and fall of 2010 the topic for the research was defined and redefined over and over again as the preliminary literature research was conducted. When the exact topic was finally decided I began working on the literature review which was finished for the most part by December 2010. The in-depth interviews were conducted during December 2010 and January 2011, following the analysis work and writing of the conclusions.
The first version of the thesis, complete with the literature review and the empirical part of the research was completed by the beginning of February 2011. Upon finishing the first version, the work finalizing the thesis was begun. The final version of the thesis was finished in March 2011 and turned in for evaluation soon after.

As for the structure of this thesis, the introduction chapter is followed by a literature review on the theory and research formerly conducted on the topic of codes of ethics. First, the suggested benefits of code adoption and implementation are identified, divided into four main groups and then discussed further individually. After that the critique on the concept of the codes as well as their content and implementation are presented and answered to where possible. Next, the form and content of codes are discussed, followed by the topic of code implementation. Finally, as it appears that most of the related literature and research is on larger multinational companies and in many cases only certain professions, a short look into the ethics in small and medium-sized (SMEs) companies and ethics in consulting and HRM professions is presented.

In the empirical part of the research, first the case company is introduced. The design of the empirical research is explained, followed by description of the data and the empirical results. In the discussion and conclusions part of the paper the contribution of the research is presented together with the discussion on the results. Next, managerial implications together with suggestions for future research are presented. Finally, the evaluation of the reliability and validity of the research is presented. Appendices part of this thesis paper documents related to the research are included.
2 LITERATURE REVIEW

2.1 Reasons for Adopting Codes of Ethics

2.1.1 Proposed Reasons and Benefits of Adopting Codes of Ethics

The codes of ethics are expected or perceived to have many potential benefits. While the codes might have positive implications for several different parties, most of the benefits are assumed to be reaped by the organizations creating and adopting the codes – thus legitimizing the resources expended on the creation and implementation of the codes. The benefits yielded by the codes might be financial or immeasurable in monetary terms, relatively direct or indirect or benefit the organization by helping it prevent problems that might otherwise arise.

McCraw et al. (2008, 4) state that a formal statement of ethical behavior has both internal and external benefits. Internally, it identifies and promotes organizational beliefs and values. Within the organization the code also serves as a continuous reminder to the organization members that ethical behavior is important and is expected now and in the future. Outside the organization, it serves as a signal to external stakeholders that the organization is committed to appropriate behavior. According to Rudolph (2005, 365), some companies aspiring to be leaders in corporate social responsibility have created codes as a mechanism for incorporating labor rights, human rights, and environmental protection into their business model. Some have developed codes to address a particular legal or reputational issue. Some wanted the code to help answer to the expectations of their business partners. More often than not the reasons are combinations of the different factors. In addition to the listed motives, Rudolph (2005, 376-379) presents a myriad of potential benefits the different kinds of codes pose. The advantages, he suggests, are help with supply chain management, maintaining relationships with business partners, safeguarding brand equity and reputation, effective risk management, production efficiency, managing relations with NGO’s, minimizing friction with shareholders, behaving consistently with the company’s stated principles.
and ethics and reducing legal risk. Relating to the idea of risk management, Wright and Rwabizambuga (2006, 96) state that behind adopting a code there may be motives such as need to protect the organization’s reputation by assuring shareholders it operates responsibly, direct aim to increase the company’s profitability or preventative action to external regulation. Apart from the social pressures coming from the organization’s environment there are also company specific motives for code adoption such as the management’s values and attitudes.

In the context of professional ethical codes Davis (1991, 166–167) gives four reasons why professionals should support their professions’ code of ethics: first, supporting the code will help protect them from being injured by what other members of their profession do. Second, supporting the code will also help assure each professional a working environment in which it will be easier than it would otherwise be to resist pressure to do much that the engineers would rather not do. Third, supporting the code helps make their profession a practice about which they need not feel embarrassment, shame, or guilt. And finally, one has an obligation of fairness to do his part in generating these benefits for all members of the profession. It has also been suggested that (realizable) codes of ethics contribute to professional’s work satisfaction and commitment (Biton & Tabak 2003). Harris et al. (1995, 35) summarize Unger's analysis of the possible functions of professionals’ ethical code as reminding professionals of their responsibilities, creating an ethical environment, guiding individuals through ambiguous situations, acting as a starting point for ethical discourse and sending a message of serious concern on responsible, professional conduct.

Kaptein’s and KPMG’s (2008, 8) research on the Fortune Global 200 companies’ codes reveals the nine most common driver’s for code adoption as identified by the surveyed companies:

1) To comply with legal requirements
2) To create a shared company culture
3) To protect/improve company reputation
4) To improve staff behavior
5) To be a socially responsible company
6) To meet stakeholder expectations
7) To decrease liability in case of misconduct
8) To improve the company’s competitive position
9) To prevent additional external regulation

All the companies surveyed identified at least five very important or important reasons for establishing a code, suggesting flexibility and broad utilization of the codes within the organizations. From this wide-ranging list of nine most common drivers some broader themes such as complying with society’s expectations or different forms of risk management can be identified.

The myriad of potential benefits and motives for code adoption found in the literature illustrate the wide variety of reasons why companies might choose to create and adopt their own ethical codes. Arguably the most compelling reasons for code adoption are 1) for the purposes of meeting the expectations of stakeholders and society in general, 2) to gain competitive advantage over their competitors, 3) to avoid risks or 4) to create or enforce ethical company culture. Additionally it could be said that an organization could choose to commit to a code for the sole purpose of altruistically advancing ethical values within itself without any agenda related to achieving financial or any other kind of gain. It is also important to acknowledge that in many cases the aforementioned benefits are in fact intertwined, inseparable from each other, or two sides of the same coin; for example favorable reputation brought on by ethical business practices might at the same time create competitive advantage and protect the company from reputation related risk.

2.1.2 Codes of Ethics and Society’s Expectations and Demands

The discourse around the topic of businesses as entities with social responsibilities is not new; the exact role of businesses in a society, their responsibilities and duties has been a topic a heated debate in scientific discourse, media and by the general public for decades. However, regardless of whether or not a company’s management thinks the business ethics and corporate social responsibility (CSR) truly is something the company should concern itself with, the environment the companies operate in has arguably become considerably more aware and demanding when it comes to CSR and business ethics. In other words there is constant scrutiny on the actions of companies by
their customers, competitors, partners, media and other stakeholders. Any company needs by its own actions to prove that it is worthy of the trust of the surrounding society. (Könnölä & Rinne, 2001, 42). In the existing literature there are numerous claims that the great increase in the number of company specific codes is related to the observed change in the culture and expectations of the surroundings the organizations operate in and that the organizations’ stakeholders pose demands of different legitimacy and power regarding their social responsibility and ethicality of business practices.

In 2003 the World Bank estimated that there are over 1,000 business codes created voluntarily by transnational companies principally in response to a number of business pressures. The growing influence of more active, effective and organized stakeholders such as the NGOs and SRI organizations drives this development. (Rudolph, 2005, 365.) According to Lundblad (2005, 385), during the last decades of the 20th century it gradually became common to view ethical guidelines as an important tool for companies to conduct their business. The idea that companies have social responsibility gained ground and it could even be argued that the adoption and implementation of a code became a standard in global business operations. The reasons for this were various, such as historical reasons and the advances in information technology. The UN has found that the more directly a company is connected to the consuming public, the further it tends to be in the process of developing and adopting codes - therefore well known consumer brands tend to be leaders in this development. This is almost certainly due to the fact that proximity to consumers and goodwill are significant assets to consumer brands (Rudolph, 2005, 375). According to Hartley (1993, 3), what society once tolerated as acceptable behavior is rapidly becoming unacceptable – society expects or even demands more ethical conduct, whereas it has previously regarded questionable practices with apathy or ignorance. “As more companies adopt a code, those who refrain from doing so will increasingly be confronted with stakeholders who will want to know why a code is not viewed a desirable instrument to manage ethics, integrity and social responsibility.” (Kaptein 2004, 26)

Grace and Cohen (2005, 178) also state that possibly the strongest motivation for creating a code of ethics is the present climate that demands for accountability, fair dealing, public awareness and governmental regulation leading to what they describe as “do it, or else” situation. Therefore it is obvious that while codes are for a large part
implemented to promote the overall interests of the company in question, the expectations and demands coming from national governments and the society in general can even be seen as so powerful that it could even be questioned if committing to a code is in fact truly voluntary (Lundblad, 2005, 389). In fact, so great has been the influence of the corporate ethical scandals in the United States that Congress enacted the Sarbanes-Oxley Act of 2002 on July 29, 2002. Section 406 of this Act required the Securities and Exchange Commission (SEC) to issue rules to implement its provisions requiring a company to disclose whether it has adopted a code of ethics that applies to its principal executive officer, the principal financial officer, and the principal accounting officer. The Act further directed the SEC to require companies who have not adopted such a code to explain why they have not. (McCraw et al. 2008, 2-3.) This requirement, even though it only concerns a specific group of large corporations, goes against the idea presented earlier that codes of ethics are by definition voluntary and separate from legislation.

It seems reasonable to argue that business ethics and CSR increasingly concern modern companies. The exact relationship with business, ethics and society’s expectations is in practice however complicated and for a large part not well-established. Regardless of the decades of research, according to Svensson and Wood (2008, 303), an actual theoretical model of business ethics is lacking from the literature. They offer a dynamic model of the society’s relationship with business ethics to illustrate its nature as a continuous process. (See Figure 2.)
The model of business ethics by Svensson and Wood (2008) consists of three main components connected by five sub-components. This setting involves the many ethics related antecedents that aim to ensure the ethicality of operations, for example government legislation and professional associations. The antecedents interact with the companies and the settings they must operate within in order to be generally approved of. As the companies strive to fulfill the expectations, the antecedents also pose certain prerequisites for the internal culture of the companies. The companies operate as a part of the dynamic market environment of today’s society, the “social glue” formed by the values, norms and beliefs has a strong impact on how the company deals with the other operators. The second main component of the model therefore embodies the idea how well a company can meet the different expectations set by the society in its interaction with its stakeholders. Interacting with the stakeholders and the companies’ attempts to answer to the many challenges and expectations set by the society yield various kinds of results – in addition to financial profitability there are also other gains that cannot always be accurately measured in monetary terms. The society has come to both explicitly and implicitly demand for not just profits but also softer values. The results of the companies’ actions are actively being evaluated and criticized, which connects to the third main component of the business ethics model. By analyzing and evaluating the outcomes the society aims to ensure the acceptability of companies’ actions and making sure that the profitability stems from ethically sustainable choices and behavior. Sometimes, however, the results of the evaluation are not acceptable, and for that reason
the model also includes the possibility for dynamic change and development. Society’s evaluation also gives rise to new business ethics related expectations, connecting back to the beginning, the first phase of the model where the process can start again. Therefore business ethics are seen as a continuous development process, an interaction between the companies and the society as a whole. (Svensson & Wood 2008, 305–318.)

It seems there is a relative consensus on that society increasingly expects and demands ethical behavior from businesses. This can be seen as the result of changes in the social, political and economic environment, developments of technology and media or possibly as a direct response to the numerous, recent corporate scandals. Regardless of the reasons, companies are now in a situation where they cannot choose to ignore external demands for addressing ethical issues that arise in their operations – something that has without a doubt contributed to the growing prevalence of codes of ethics.

2.1.3 Codes of Ethics and Competitive Advantage

There are several issues that can have an effect on an organization’s competitive advantage. Competitive advantages are the result of strategic decision leading to favorable position in comparison to competitors, and ethical business practices can help create competitive advantage that the competitors cannot easily imitate. Porter (1985) has identified two basic mutually exclusive types of competitive advantage: cost advantage and differentiation advantage. The advantage can be achieved by utilizing one of the three basic competitive strategies: differentiation strategy, cost leadership or segmentation strategy. Successful differentiation strategy means that the organization is able to offer a product that is somehow superior, provides greater value to the customer than the products of the competitors. Ethical business practices can be argued to be a way of differentiation, a way to stand out in a positive manner. Additionally, the ethical behavior within an organization may lead to direct or indirect benefits also linking to its ability to function and compete efficiently.

The basic idea that competitive advantage and therefore improved financial results could be created through differentiation by ethical business practices is not without problems; the perception that unethical and shady practices will yield more sales and
profits or are necessary even for reasonable profits still prevails. Given the attitude, certain factors or conditions that tend to motivate those less than desirable practices can be identified in the organizations’ cultures: overemphasis on performance, intensity of competition, indifference, custom, and the tendency to “groupthink”. (Hartley 1993, 5.) Indeed, even though many studies have indicated that there is a positive correlation between organizations’ financial and ethical performance (Margolis & Walsh 2001), ethics is nonetheless still often seen as something that puts a strain on an organization’s ability to strive for its other, often financial, goals. According to Hartley (2009, 5), ethical conduct is compatible with maximizing profits in the long run, although in a very short run disregard of high moral principles may yield more profits. The fact remains that organizations often choose to put their emphasis on short term financial profitability as opposed to the ethicality or sustainability of its operations – something that has been made apparent by the numerous corporate scandals of late. According to Gilley et al. (2010, 32) this tendency to favor financial profit over other values is visible for example from the recent study suggesting that for most Fortune 500 CEOs attending to the non-investor stakeholder relations is a demotivating factor due to the design of their personal compensation system favoring keeping the focus strictly on financial goals. Still simply aiming for the short term profit maximization in non-sustainable and unethical way will clearly diminish the added value generated for the stakeholders, thus diminishing the long term ability to sustain growth and financial success. Several authors have found that reputation is an important asset of any company, and that stakeholders are known to penalize organizations for unethical behavior (Graafland 2004, 131).

An outstanding reputation is without a doubt a way of gaining competitive advantage through differentiation. Different studies on the effect of negative publicity on companies’ financial success highlights the importance of ethical behavior. Wright and Rwabizambuga (2006, 90, 109) argue that codes of conduct are primarily adopted by firms as signaling devices for demonstrating positive credentials, with the aim of strengthening reputation and legitimacy. Their research holds that adopting a voluntary code signals willingness to conform to industry practice and before all reflects a strategic desire of the companies to maintain or gain a positive reputation within their environment. Doing so is likely to add value to a brand and increase their competitiveness by allowing firms to sell products at a higher price along with many
other beneficial outcomes. The authors conclude that especially in many North American and Western European companies a formal code primarily functions as tools for maintaining or enhancing corporate reputation. This is, they find, due to the fact that the likelihood that a (financial) institution feels compelled to adopt a voluntary code mainly depends on the reputational benefits available from doing so. Graafland (2004, 127) describes a case company’s efforts to upgrade its ethical procedures by introducing an ethics code, illustrating several points related to CSR and ethical codes. Firstly, their results indicate that the reactions of the external stakeholders and especially the public outcry played an important part in company management coming to re-evaluate the ethicality of their actions. Secondly, the researched case was considered an example of the well known phenomenon where negative publicity played an important role in completely changing an organization’s CSR policy; not only does responsible behavior protect the organization from loss of reputation, but negative publicity also tends to give rise to new responsible policies. Thirdly, the empirical research on the managers’ views shows that in order for competitive advantage to be created, the code should include not only rules but also values that motivate a change in attitude. (Graafland 2004, 138.)

For the aforementioned reasons it can be argued that having and committing to a code of ethics can have a positive effect on a company’s ability to compete against the other operators in its field. Gilley et al.’s (2010, 33) observations on the growing importance of ethical business behavior as a source of competitive advantage in today’s world of constantly tightening competitive situation has led them to formulate a conceptual framework that links together the different important elements of competitive advantage creation through strong commitment to ethics. (See Figure 3.)

![Figure 3: A conceptual framework on the connection of ethics code commitment and competitive advantage (Gilley et al. 2010, 33)](image-url)
Gilley et al. (2010) have examined how a company’s strong commitment to its code of ethics can affect both the company’s internal culture and stakeholder relations, thus possibly leading to valuable competitive advantage in the market environment. This is, however, only possible if the ethical norms included in the code are designed not just for penalizing unsustainable and unacceptable behavior and practices, but also aim for a proactive way of improving ethicality and creating added value to all of the stakeholders.

It appears that while research supports the notion that ethical behavior can improve a company’s competitive advantage and resulting financial success, there is certain reluctance within organizations and managers to set aside striving for quick, unsustainable profits and concentrate on long term competitive advantage through creating value to stakeholders. Good reputation based on ethical behavior can be used as a method of differentiation. Alternatively a code of ethics can be seen as a way of creating an ethical organizational culture which will in turn lead to competitive advantage. The prerequisite for this to happen, however, is the organization’s commitment to the code.

2.1.4 Codes of Ethics as Risk Management

Another reason for organizations to construct their own codes of ethics is to create a standard according to which the members of the organization are to function. A standardized approach to ethical dilemmas and ambiguous situations can help make the organization more efficient and prevent problems. Additionally, in some cases organization might even choose to adopt a code of ethics just to address a specific legal or reputational risk (Rudolph 2005, 365). This might be the case with organizations that are constantly being scrutinized because of a particular ethical issue relating to their line of business – for example the Finnish fur farming industry.

Shenkir and Walker (2006, 10, 24) discuss codes in the context of implementing an enterprise risk management system. They stress that only by showing its utmost commitment to integrity and ethical behavior the management can convey a message of truly expecting ethical behavior from all the members of the organization in a way that
also helps control risk. However, organizations face four types of risk; strategic risk, operational risk, financial risk, and hazard risk. Based on their definition financial risks mostly depend on external factors and hazard risks with things such as natural disasters. Strategic risk and operational risk on the other hand can be diminished by ethical, responsible conduct by organization members. Formal codes that also include practical guidelines and that are effectively implemented and enforced are claimed to be an important tool for risk management. According to Rudolph (2005, 377), a well crafted and substantive company code incorporates clear processes for defining expectations, monitoring those expectations and implementing corrective measures when necessary. Doing so is explained to minimize the risk of serious code violations by not only company members but also partners and provide a mechanism for addressing violations if they arise. The code also serves as a foundation of credibility when dealing with affected stakeholders on the event of violations. In this sense having a code can be thought of as insurance – if a company can in a case of an ethical violation show that it has done its best to discourage and prevent such misconduct, the reputational setback can be kept to minimum.

Codes of ethics can also protect individual employees from some types of risk. Davis (1991, 154) argues that a code of ethics, at least when directed towards professionals and when practical level guidance is provided, can protect a professional from certain pressures, such as the pressure to cut corners to save money in a situation where doing so would be unethical. By making it likely that the other professionals of the field will also feel committed to the same ethical standards, a code of ethics protects the members of a profession from certain negative consequences of competition. The author goes on to illustrate that for example a professional can, based on a code of ethics, object to the pressure of doing substandard work not only as a moral agent, but as a professional.

To summarize, codes of ethics can protect the issuing organization from the types of risk that depend on the actions and behavior of its members. Having a code of ethics also sends a message to the outside world, trying to convince the external stakeholders of the organizations good intentions and hopefully making them less likely to attack the organization in a way or another. Individual employees can also benefit from their code’s risk reducing capabilities – providing that they and their colleagues act in accordance of its ethical guidelines.
2.1.5 Codes of Ethics and Ethical Organizational Culture

Organizational culture is the collection of values and norms shared by the members of an organization in a way that controls or influences the way they interact with other members of the organization or external stakeholders (Hill & Jones 2001). Ethics and ethical behavior closely relate to values and norms. Increased ethical behavior brought on by ethical codes can therefore be argued to be a change in the organization’s culture. An article on Community Banker (2008, 16) has argued that striving for ethical culture should be every business’ number one priority as the benefits such as risk management and happier employees and customers lead positive changes in the bottom line. Establishing an enforceable code of ethics is stated to be the number one step in the process of building an ethical culture, followed by initial and ongoing ethics training and making ethics a live, ongoing conversation. Many researchers have also found there to be a connection between a code and an organization’s culture.

Grace and Cohen (2005, 177-178) point out that because organizations are not natural persons that possess emotions, conscience, intellect or will, their moral status and culture need to be established by formal rules. Clear ethical rules are no less important than other formal regulations and informal habits of conduct. Already writing a code has undoubtedly the advantage of setting the organization’s managers to think about the central values of their company and to reflect on situations in which these values are threatened, (Nijhof et al. 2003, 66) an engaging development process and code introduction may increase awareness of ethical issues within the organization (Adams et al. 2001, 208) but a fully implemented code is an instrument for responsibilization, processes that shape the behavior of the members towards ethical practices, within the organization (Nijhof et al. 2003, 68). Ethical behavior and culture often originates from values such as honesty, integrity, and respect, and therefore these expectations should be stated in the code. (McCraw et al. 2008, 2) Also Rallapalli (1999, 129) states that a code of ethics can be, along with other measures, used to create and develop an ethical climate within an organization. An unclear ethical climate tends to lead to more unethical behavior on part of employees. Adams et al. (2001, 208) concluded that employees who worked for companies having a code of ethics judged themselves and other organization members to more ethical than those employed in organizations not
having a formal code of ethics. In the same study the respondents also indicated in many other ways that having a code of ethics made a measurable difference in how they felt about ethical behavior and business practices, leading the authors to conclude that the findings very clearly suggest ethical codes to have an extensive impact on the behavior within the organization.

Valentine and Johnson (2005, 46, 49) have studied empirically the relationship between the corporate ethics codes and individuals’ perceptions of the importance of virtue ethics that they call employee incorruptibility. Their research focused on reviewing of the code of ethics during the orientation phase as they found it to be a good indicator of ethics communication. The results of this study showed that providing an overview of a corporate ethics code in employee orientation was linked with an individual’s perception of the importance of incorruptibility. This indicates that the discussion of an implemented ethics code is related to the development of employee traits and attitudes instrumental to the advancement of a corporate ethical context – or culture. The findings also further demonstrate the usefulness of codes as a mechanism for organizational change and provide some idea about an appropriate time to discuss code content with employees. Codes should explicitly describe the virtues deemed important in the organization so that managers and employees feel compelled to internalize these principles in a manner that influences their conduct at work. Also McKinney and Moore’s (2007, 109) research supports the notion that an implemented code positively contributes towards ethical culture. An encouraging finding of their study was that in business firms having a written code of ethics, employees were significantly less likely to be accepting bribes than in the companies where no formal code was present.

There are also issues that speak against codes of ethics creating shared ethical climate. Even though a formalized statement of conduct, a code, is supposed to announce the level of expected behavior to all personnel, it is the actions of top management that often define what is actually considered acceptable regardless of the values expressed in a written statement (McCraw et al. 2008, 2). While the codes tend to be created by senior management or under senior management’s supervision, they are often directed mainly to non-management employees. Most of the time the corporate scandals brought on by unethical conduct have been associated with the senior management level. (Farrell & Farrell 1998, 589.) Clearly the ethical thinking and values needs to be shared
by the entire organization, including the top management – organizational culture is only truly culture if it affects all members of the organization. Additionally, at least partly because ethics is not a simple concept to define or measure, there is not a complete consensus on if codes of ethics even truly create ethical behavior that could then translate to culture. Several studies indicate that codes of ethics and ethical behaviors are significantly related (Rallapalli 1999, 129). However, Nijhof et al. (2003, 66) point out that research in different countries has shown that there is no direct relation between the fact that an organization has a code dealing with ethical behavior and responsible behavior within the company. For the code to have effect, it needs to be embedded in the processes and culture of the organization.

The process of developing and implementing a code of ethics can actively change the culture of an organization for the better when done properly. The improvements in the company culture can in turn yield further benefits of ethical conduct. It appears that just like with all the potential benefits of a code or possibly even more so, change in organizational culture is dependent on proper implementation of the code. Like Neil Makin, chair of the Cadbury Foundation said: “It is all very well having an aspirational statement on ethical principles from the very top of the organization, but frankly if you want to become an ethical company, it is about getting perhaps 50,000 employees to behave in an ethical manner every day.” (Payton 2008, 125.)

2.2 Critique on Codes of Ethics

While the number of companies creating and adopting codes has clearly been on the increase, suggested benefits are plenty and many even feel that having a code is virtually a modern necessity, the real importance and usefulness of codes of ethics has been debated and questioned by a number of authors. The ways in which individual codes are created and implemented can be criticized or the concept of a code itself put under scrutiny. Some authors even believe that having a code of ethics does more harm than it does good for the organization or the cause.

One of the critics of the codes of ethics, Ladd (1991, 130–131), has argued that codes of ethics are actually not good for anything, as ethics should be open-ended and
reflective and relying on code of ethics only serves to confuse ethics with legislation. He has stated that there is no special ethics for professionals that would separate them from the ethics of other groups of human beings within a moral society. According to him, professionals have no special rights or duties that differ from their rights and duties as moral persons, and for this reason codes of ethics are redundant and possibly even harmful. Welch (2005, 1, 3, 6) likewise regrets that the recent discourse around the topic of professional ethics has largely revolved around the claim that professional ethics must override what is normally considered ethical because special norms and principles should guide professionals' conduct, or that the professionals must first meet the general rules that apply to everyone and then go even further in ways depending on the characteristics of the profession in question. He, like Ladd, argues that any claim for a stronger ethical content and substantially different ethical structure for professional ethics is dubious, as everyone is continuously engaged in exactly the same kind of process of moral deliberation. There are many kinds of sets of ethics in addition to what we think as general ethics, but they do not call for different kinds of ethical reasoning than that called for by general ethics. Luegenbiehl (1991, 138) on the other hand admits that codes of ethics have some sociological value, as the adoption of such a code can be important for the professionalization of an occupational group since it marks a point where that group accepts its obligation to society and moves past concerning itself solely with economic self-interest. However, he also believes that ultimately the codes of ethics create more moral problems that help solve them since according to his observations, the people the codes were made for rarely seek guidance from them when facing an ethical dilemma and, sometimes the content of the codes is found to be internally inconsistent. Also, just like Ladd, Luegenbiehl is concerned that the implementation of a code of ethics might interfere with the moral autonomy already expected from individuals regardless of their profession or status.

Rudolph (2005, 380–382) states that different stakeholders can make the issues of codes problematic for their issuer as the values or other content of the code cannot be imposed on external parties. Especially in the case of vendors and factories that deal with a number of companies enforcing the code on them and their employees can be impractical or problematic. Some of the most powerful stakeholders, for example non-governmental organizations (NGOs) and socially responsible investors (SRIs) that demand more and more responsible practices can use one company’s code trying to
make other, possibly very different companies in very different situations to adopt the same kind of a code. The companies themselves can also be a threat to the successfulness of the codes; if the code is not well planned or the company as a whole is not committed to it, ideal results are not possible. Indeed, the proper implementation of the codes is a problematic issue. According to Grace and Cohen (2005, 117), the biggest problem of the codes of ethics as seen by people in general is that they are by nature voluntary; the grandiose promises of noble goals and pure intentions can easily be unfulfilled. If the content is far from reality, the codes are seen as impractical, and such self-defeating statements only help to breed more cynicism and reinforce the view that codes of ethics are simply useless in all cases. They continue to explain that another perceived problem is that by stipulating what must be done and setting a minimum level of ethics, the codes might be giving the message that everything that is not forbidden is allowed and that the minimum level is enough, thus discouraging truly ethical behavior. Rudolph’s (2005, 384) critique also relates to his notion on that while he believes that the codes are a necessary step in gradual evolution towards the achievement of global human rights, labor rights, environmental and social and ethical objectives, the dialogue has not evolved beyond mere codes themselves. He states that more systematic mechanisms for promoting these objectives are needed if the codes are to contribute towards such big changes in the global setting.

While Grace and Cohen (2005, 117) have conceded the possibility that some codes of ethics are not well designed or can be detrimental to excellence, they also believe that when used correctly, they are indispensable to the development of an ethical culture in a modern organization. Davis (1991, 154) strongly defends the professional codes of ethics and argues that they should be understood as conventions between professionals in order to understand their contribution and importance. He believes that the rules, or codes, can be created in a way that leave out nothing of real importance and therefore offer sufficient guidelines, providing that the rules are interpreted and followed properly. Therefore just following “the rules”, as opposed to there being some additional requirements for one to be a truly ethical professional, is generally speaking enough assuming the codes are good and adequate, (Davies 2005, 8, 16–17) thus responding to the same concern about how imposing ethical rules might discourage true ethicality as Grace and Cohen. According to Harris et al. (1995, 34) the critique on the codes can for the most part be countered. Firstly, even though many professionals do not routinely
refer to their codes of ethics this does not automatically imply that they are not aware of the contents of the codes or not interested in and committed to them. Secondly, the possible internal inconsistencies within the codes can be addressed by understanding that these codes of ethics are not actual recipes for decision–making but expressions of ethical considerations to be kept in mind – and ethical framework as opposed to specific solutions for ethical dilemmas. Thirdly, the authors argue that the codes do not compromise the moral autonomy of individuals: “If a code's provision can be supported with good reasons, why should a profession not include an affirmation of those provisions as part of what it professes?...this does not preclude individual members from autonomously accepting those provisions and jointly committing themselves to their support.”

Most of the critique and suggested fundamental problems of codes of ethics relate to the basic assumption that professionals have additional ethical responsibilities, to issues related to stakeholders and how they react to the codes and the implementation of the code within the issuing organization. The counterarguments state that most of the issues can be resolved as long as the codes are well designed and properly implemented. Codes of ethics can therefore be seen as useful and helpful for organizations and professionals. The critique highlights the possible pitfalls of code adoption and underlines the importance of proper code content and implementation.

2.3 The Form and Content of Codes of Ethics

In regards on name, form, content and style, there are many different kinds of codes. The name of the code can depend on the form, content and purpose of the code, but at the same time the names are not established well enough for the name to accurately and reliably indicate the contents of the code. Many factors influence the form and content of the code. Additionally in some cases the chosen form, content or even the style used in the code can be seen as more or less appropriate in regards of the intended purpose. The extant literature reviewed here deals with factors that affect the form and content of the code, analyses of what the codes of ethics currently in use are like and also views on what they should be like in order to better accomplish their goals.
The contents of codes of ethics are significantly affected by social, economic, and political factors (Tucket et al. 1999, 287) and expectations coming from both outside and inside of the organization. Similarly, one important determining factor in the content of a code is the target group the company has in mind: external and/or internal stakeholders. In the case of the former, the code will focus mostly on responsibilities towards stakeholders and the principles that apply. In the case of the latter, the code will mostly formulate rules for conduct. (Kaptein 2004, 26.) Lundblad (2005, 388) states that the form and content of codes often depends of factors such as the company’s size, geographical location, commercial focus or the cultural background of the creator(s) of the code. Other ways the form and content can vary are such as:

- Single issue instruments vs. wide range of issues covered
- Use of precise language vs. vague language
- Specific rules on implementation and monitoring vs. non-committing approach

An analysis on the basic structure of codes reveals that they often consist of layers of information in a form depictable in the shape of a pyramid. The lower layers of the pyramid consist of more detailed and technical information like the standards and rules for managers and employees and the responsibilities to the stakeholders, whereas the higher layers tend to consist of more abstract, aspirational topics such as mission and vision of the organization and the core values. (Kaptein & KPMG 2008, 9.) (See Figure 4.)

![Figure 4: Layers of a (business) code (Kaptein & KPMG 2008, 9)](image_url)
This model of layers of information found in a code naturally does not apply to all codes – codes can also be shorter, general level statements and therefore not have the layers dealing with detailed practical level guidelines. Alternatively an organization might have created different codes for different levels of information, such as an aspirational code consisting of (1) mission and (2) core values and another code of conduct for practical guidance consisting of (3) responsibilities and (4) standards and rules.

Grace and Cohen (2005, 186) state that codes of ethics, in addition to having a proper regard for morality and creating an environment of predictability and consistency in the behavior of its members, can consist of almost anything the organization considers necessary. Typically the codes contain provisions of the following:

1) A general statement of the values of the organization and its guiding principles
2) Definitions of what constitutes both ethical and corrupt conduct
3) Competence requirements and professional standards
4) Directives on personal and professional behavior
5) Affirmations of fairness, equality, equal opportunity and affirmative action
6) Stipulations on gifts and conflicts of interest
7) Restrictions on the use of the company’s facilities for private purposes
8) Guidelines on confidentiality, public comment, whistle blowing, and post-separation use of company information
9) Identification of different stakeholders and their rights
10) A commitment to occupational health and safety
11) A commitment to the environment and social responsibility
12) A mechanism for enforcing the code, including sanctions for violations
13) Advice on interpreting and implementing the code. (Grace & Cohen 2005, 186.)

This list of the possible issues covered by a code of ethics deals with general level statements and guidelines, topics most often associated with professional codes, stakeholder related issues and also a considerable amount of topics related to protecting the company from legal problems and other types of risks.

According to Kaptein and KPMG’s (2008, 14) research, two different visions on contents of codes can be identified based on whether or not concrete standards and rules
are to be included in them. Codes with detailed rules in them are *rules based*, while the codes consisting of more general principles are *principles based*. Approximately 13% of the codes studied were principles based, 35% were rules based and 52% a mix between the two. Rules based codes tend to be longer, more detailed, more commanding and primarily for internal use. Principles based codes tend to be a couple pages at most, be formulated to use a more positive tone, be internally driven and also available for external stakeholders. Comparatively, European and Asian companies tend to have more principles based codes while American companies have rules based codes reflecting the legal orientation that drives the development of many U.S. codes. Both types of codes have their strengths and weaknesses; rules based codes create clarity and uniformity while principles based codes are more accessible and flexible. Companies may also have two or more separate codes for different purposes. (Kaptein & KPMG 2008, 14.)

In order to examine the decision making process the codes are intended to influence, Farrell & Farrell (1998, 588–589) took use of the 1962 five step model by Kuhn:

1. Stimulus
2. Search for alternatives
3. Prediction of outcomes
4. Evaluation of outcomes
5. Selection

Based on the model, the authors state that the ethical codes of companies have a chance of affecting decision making at steps 2 and 4. At step 2 where the code addressees consider alternative options and search for solutions a code can be consulted for advice. In the case of shorter codes they cannot be very prescriptive or dictate alternatives to be chosen – instead the codes tend to be inspirational or prescriptive in general terms. Prescriptive codes are said to arise when “code writers apply corporate values and principles to perceived moral risks that might occur and make ethical decisions that form the subject matter of the codes. The activity expected of addressees is not the making of ethical decisions but compliance with the prescriptions, by behaving as required, when the indicated moral hazards occur. No discretion in the matter is expected or allowed.” The authors continue to state that in order for the code to guide decision making, the required behavioral responses must be made concrete enough. However it would be unpractical or impossible to compose a code that could answer to
all possible situations and therefore the addressees of corporate codes become empowered to make their own ethical decisions.

A view expressed by several researchers is that a general code that appeals to employees’ sense of responsibility could be more effective than a very detailed code which can easily be interpreted as a vote of no confidence (Treviño et al., 1999 in Kaptein 2004, 29). Farrell and Farrell (1998, 598–599) have studied the codes of business enterprises in Australia for the purpose of performing a linguistic analysis of their content. They concluded that as texts, the codes they examined imposed the status quo and the requirements of management: they do not liberate moral and ethical resources within the individual. Instead the codes use language that creates and maintains hierarchical power relationship between addressees and the enterprise and generally indicates a will to control over employees. The connotative meaning expressed by the texts is conformity to the organization’s rules rather than to make personal decisions, and the tone of command often established in the codes only adds to this notion. This leads to a conflict of messages; accurate prescriptions are rarely available in the codes and the decision making is in the hands of the addressees, and yet the language implies tight control by the organization. Farrell and Farrell (1998, 598–599) state that the language structures used in the examined codes are therefore inappropriate: if an organization wants a code that consistently communicates messages of empowerment, much of the restrictive language structures now often used in the codes need to be changed to encourage employees to recognize themselves as and to be ethical people. Instead of imposing strict rules and expectations, the top management could focus on the development of an ethical corporate culture through comprehensive support strategies for the employees all dealing with ethical decision making. The code, incorporating the values of the organization, could be used as a unifying focus for filling education, communication and other support roles.

Kleiner and Maury (1997, 331) conducted a survey at American business schools to determine whether there was a perceived need for business schools to adopt a code of ethics and to establish a consensus as to what standards of conduct should be mandated and prohibited by such a code. However, upon finishing the research it became apparent to them that a different approach than what they had planned to developing a code of ethics was necessary. Instead of the normative “Ten Commandments” approach to a
code that identifies a list of do’s and don’ts, a statement of shared values would have a stronger and more positive impact on the institution and would be a more effective way of integrating ethical conduct into the institution’s environment. A code of positive value standards would have the benefit of being more easily created to include and involve all the members of the institution. Another advantage of the value standards approach is that it accentuates positive action instead of utilizing a negative voice. Kleiner and Maury (1997, 333–334) developed a list of positive values that constitute a unified framework incorporating the areas of concern. The value standards are divided into ten principles of conduct:

1. Respect for the human person
2. Integrity
3. Fairness
4. Concern
5. Total quality
6. Professionalism
7. Allegiance
8. Confidentiality
9. Service to the institution
10. Responsible citizenship

In their recent research Stohl et al. (2009, 607) have explored the degree to which the codes of ethics of corporations on the Global 500 and/or Fortune 500 lists include a new, “third generation of thinking” on global corporate ethics and responsibility. The first generation ethics are explained to focus on the legal context of corporate behavior while the second generation ethics locate responsibility to groups directly associated with the corporation. Third generation ethics transcend both the profit motive and the immediate corporate environment and thus the third generation ethics are grounded in responsibilities to the larger interconnected environment. The results of their research suggest that codes of ethics are indeed becoming standard communication features of the organizational landscape across countries and industries. Since there appeared to be a lack of significant differences in the number and content of codes across sectors it might suggest that the pressures to ‘‘think globally’’ and expand the corporation’s view of important stakeholders and relevant domains of influence are being felt by corporations regardless of the sector and geographical area in which they operate.
However, Stohl et al. (2009, 607) also found that global corporations are still mostly concerned with their direct stockholders and return on investment and therefore also framing their concerns in language reflecting that. The largest number of ethical statements still reflects traditional values where corporate ethical behavior is narrowly interpreted to include only actions required by national laws and represents only those directly engaged with the corporation – thus reflecting first generation ethics. The fact that advanced or third generation thinking was relatively uncommon in the codes suggests that the processes of globalization are reflected in the form, but not in the substance, of the codes of ethics. Another result that the authors considered unexpected and interesting was that the industrial sector did not make a difference in the substance – but region did. Western European corporations were less likely to have codes than U.S corporations. However, European Union corporations were more likely to have an expanded view of stakeholders and the role of the corporation beyond a profit making. Approximately 87% of European corporations included third generation thinking, and more than 13% of the statements included in the codes reflected third generation whereas in the US corporations less than half that, 6%, proportion were third generation. The Western Europe corporation codes reflected a greater recognition and commitment to the values of globalization and the expectations of the communities in which they are embedded and were more consistent with the values of the international governmental and nongovernmental organizations that participate in the ongoing creation and maintenance of an international regime of corporate ethical standards. The authors concluded that many of the large corporations still have a long way to go before they truly meet the challenges of globalization when it comes to corporate social responsibility. (Stohl et al. 2009, 618–620.)

Based on his research on the existing codes of companies Kaptein (2004, 27–29) has made the following list of general suggestions for improving the codes:

1. **Accountability:** The impact and credibility of a code can be enhanced by making a commitment to stakeholders to periodically account for implementation and compliance with the code.

2. **Feedback:** A company can use a code as a means to invite internal and external stakeholders to share their ideas on improving the code or even its implementation.
3. A stimulating work environment: The proper implementation of a code requires that managers create a work environment which enables and encourages employees to observe the code.

4. Periodic update: A code should also be updated at regular intervals.

5. Clear status of the code: It should be clear to what extent the codes express declarations of intent or actual business practice.

6. Availability of the code: Too often the codes are difficult to find or even considered as classified information.

7. Convincing message: While sometimes an abstract code can be more effective than a detailed code it is recommended that the code is easily approachable and understandable.

8. Clear structure: The form of the code should be coherent and sensible.

9. Appropriate presentation: The presentation, while arguably not as important as the content, also sends a message about a company’s regard for its code.

10. Unique identity: The effectiveness of a code greatly depends on how clearly and successfully the code is tailored to the company’s unique circumstances.

The starting point of Schwartz’s (2002, 27–36) research were the notions that ethical codes have become common and that extensive research has been done on their benefits, connections to ethical behavior as well as ideal form and content, but that even when making recommendations researchers tend to offer little or none normative justification. For this purpose the author challenges the fundamental assumption that the codes are always ethical in content and principle. Schwartz (2002, 27–36) offers a set of ethical criteria by which the ethicality of the ethical codes could be ensured:

1. Trustworthiness (including notions of honesty, integrity, reliability, and loyalty);
2. Respect (including notions of respect for human rights);
3. Responsibility (including notions of accountability);
4. Fairness (including notions of process, impartiality, and equity);
5. Caring (including notion of avoiding unnecessary harm);
6. Citizenship (including notions of obeying laws and protecting the environment)

These above standards the author believes to be sufficiently close to being truly universal and therefore suitable for evaluating the codes. The standards are to be followed in all four phases are of the code development stages that are (i) code content, (ii) code creation, (iii) code implementation, and (iv) code administration. In code
The six standards then give rise to the moral minimums in terms of the code content:

a) Inclusion of six universal moral standards;
b) Obligations to stakeholders;
c) Consistency with moral standards;
d) Prioritization of standards;
e) Sufficient rationale;
f) Inclusion of procedural provisions;
g) Comprehensible; and
h) Achievable. (Schwartz 2002, 29.)

In code creation the most obvious issue is stated to be the employees and other stakeholders’ right to participate. However this right is for understandable reasons often limited. In code implementation issues such as distribution, sufficient training, support and reinforcement and role modeling arise. In code administration the obligations revolve around 1) protections, 2) enforcing the code and 3) monitoring the code. (Schwartz 2002, 35–36.)

It appears that in most cases non-prescriptive, aspirational codes with empowering value statements are recommended, but that at the same time a large part of the existing codes represent a more rules based approach emphasizing control exerted by the organization. As for the content, while researchers have views on what an effective code should ideally include, based on their research findings Adams et al. (2001, 209) state that the mere presence of a code of ethics is more important than the content of the code per se. They found that although most of the respondents in their research could not recall specific features of their company’s ethics code, employees of companies having a code had very different perceptions of ethical climate and behavior than employees of companies lacking a code. Still, the majority of the authors strongly feel that the appropriate design and content of the code is imperative for it to become a beneficial instrument of ethical decision making.
2.4 Implementation of Codes of Ethics

Many of the authors who have researched and discussed the potential benefits of a code of ethics have recognized the vital role of code implementation – a code can only have effect if it has been implemented properly. Implementing, internalizing, or embedding the code into the organization’s processes and culture is however not a simple task and required commitment from all management levels. The process of code implementation can also be approached from many different angles such as the when to implement, how to implement and methods of implementation.

According to Valentine and Johnson (2005, 46, 49) the orientation phase of the newly recruited employees is an effective time for code of ethics communication. They found that providing an overview of a corporate ethics code in employee orientation was linked with an individual’s perception of the importance of ethical behavior at workplace. Nijhof et al. (2003, 67) approach the topic of first steps from a different angle and state that once a code has been drafted, the first challenge is to trigger reflection on the central values proposed in the code among the employees or the organization. Second, it is necessary to link the reflection of managers and employees in order to guide actual behavior within the organization. In order for this to be possible the code should be embedded in also the organizational processes and routines. In order to be effective, a code requires a review of the management system to make sure that employees are encouraged to work in congruence with the code.

Embedding a code of ethics is said to enable the emergence of both responsible individual behavior but also of “responsible organization” (Nijhof et al. 2003, 68). The concept of a responsible organization refers to the embeddedness of clearly defined and prioritized responsibilities in the strategy and policy of an organization. This “processes of responsibilization” consists of different processes that shape responsible behavior within the organization. The process can be described as having the following steps:

1) The process of identifying and removing barriers and risks obstructing ethical behavior

2) The process of coding core values through dialogue with key stakeholders and organization members
3) The process of internalization of the code through making the code meaningful to employees in their daily activities by training and other methods

4) The process of enacting values by employees

5) The process of monitoring, controlling and sanctioning for possible deviations as well as trying to understand the reasons for such deviations

6) The process of accountability, meaning the communication between the organization and its stakeholders on the responsibleness and the continuous changes in the code when need is identified through the dialogue.

The processes are closely connected and need not be strictly sequential. (Nijhof et al. 2003, 68–69.)

Also Kaptein and KPMG (2008, 15–19) state for the potential benefits of a code to be realized the code needs to be embedded properly. By proper implementation companies also wish to create their code as a “living document” that imbues the behavior of all employees instead of remaining a piece of paper disconnected from the true values, behavior and culture of the organization. The means of implementations can be divided into four clusters:

1. Communication and training
2. Personnel policy
3. Other policy measures
4. Monitoring, auditing and reporting

The communication and training part typically consists of methods such as mass e-mails, setting up a separate internet site for the code, distributing paper copies or organizing e-learning modules or live events or incorporating parts of the code into things such as website banners, meeting minutes or management speeches. Training modules and e-learning modules are the most used of these methods. By personnel policy Kaptein and KPMG (2008, 18) mean that the code is referred to in the case of new applicants, when assessing performance criteria and when there is a need for sanctioning for improper behavior. The employees may also be required to sign of their acknowledgement of the code at times. Other policy measures include things such as risk analysis, decisions checklists, screening of business partners, whistleblower mechanism and ethics committee. Finally, it is important that there is an effective system for ensuring that things are being done in compliance with the code. For this purpose a control cycle of monitoring, auditing and reporting is needed. (Kaptein & KPMG 2008, 19.)
Adam and Rachman-Moore (2004, 228) explain that three types of methods of implementing ethical codes can be identified; formal methods, informal methods and personal methods. Formal methods, mechanisms of control, consist such as training, courses and means of enforcement. The informal methods are explained to play an important role in the socialization process and possibly include a social dimension through which superiors regulate the behavior of subordinates or employees regulate the behavior of their peers through everyday interaction. Informal methods such as the social norms of the organization reflect the organization’s values and rules of ethics. Personal methods are characterized by a sense of “personal control” and may reflect the personal values of an organizational member. The sources of personal self-control may be derived from values shared by family, community, religion and other values the individual identifies with. Through their research the authors found that majority of the employees felt that informal methods were most effective in code implementation whereas formal methods were not seen as very effective. The authors found this to be important and surprising considering how widely used formal implementation methods such as formal ethics training programs are in organizations. The results indicate that organizations might benefit from using ethics code implementation methods such as teamwork and team-building activities in social settings. Also the informal method of following the example shown by the manager was deemed somewhat important. (Adam & Rachman-Moore 2004, 239-240.)

The different approaches highlight the complexity of the implementation process. Practical guidelines to the process of implementation can be offered, but the company needs to also make decisions on the methods of implementation such as the formal methods described by Adam and Rachman-Moore (2004, 228), typically different forms or training as described by Kaptein and KPMG (2008, 15-19). In the case of informal and personal methods (Adam & Rachman-Moore 2004, 228) however, the organization has less direct ways of affecting the outcome, and the organizational culture and the personal ethics of individuals are of great importance.
2.5 Codes of Ethics in Consulting and HRM Professions

It appears that many broad and affluent professions such as different types of healthcare or engineering have created professional ethical codes. It is obvious that due to the differences of professions, the practical parts of the code vary greatly from each other. Because of the different natures and histories of the professions it is also possible if not likely that the more general or value related parts of the codes differ from each other. Therefore there is also reason to believe that consulting and HRM professions have their own, typical ethical challenges and issues that might cause them to opt to adopt a code of ethics. While consulting and HRM professions are two very distinct areas, here they are discussed together as they can in some cases overlap to a great extent.

In today’s world it appears to be common for consultancy professions to be considered somehow phony, as in fake and pretentious, or unethical in nature (Ozley & Armenakis 2000, 38). Newman’s (1993, 148) analysis on the ethical issues in consulting professions presents reasons for the difficulty of creating ethical guidelines for consultants. The author compares consultancy to medical counseling and psychological work but finds that there are many substantial differences and that the existing professional codes cannot adequately address the ethical issues related to consulting professions. An important aspect of consulting is explained to be how the actions and recommendations of the consultants can have complex and sometimes negative implications on parties other than the customer receiving and paying for the services. (Newman 1993, 148.) For example, in case of consultants dealing with HRM functions related issues, work leading to staff reductions within a customer organization there are obvious effects for the company staff and possibly even customers of the customer organization. Another relating difficulty with determining ethical behavior of consultants is that in many cases there are conflicting values and arguments suggesting different decisions. For example, often prioritizing either transparency or confidentiality will lead to different outcomes. Also Hagenmeyer (2007, 111) states that the principal ethical challenge to consultants lies in the consequences of their consulting activity, which in turn depend essentially on their underlying philosophy.
In his research Hagenmeyer (2007) explores the topic of ethics in management consulting and the perceived contradiction in terms between management consulting and integrity. He ends up with the idea of integrative management consulting ethics, guidelines meant to provide consultants with integrity that helps them compass through the challenges they face at their daily work. The guidelines state, among other things that management consultants who exhibit integrity always see their clients as equals and regard consulting as a way to reinforce their clients’ autonomy – ethical consulting helps clients to help themselves through the learning process and empowerment through consulting. Additionally, ethical consultants should refuse to take on assignments of “bogus consulting” (enforcing decisions already made by company management and disguising it as consulting activity) and consider the ethical implication of the consulting assignments for its stakeholders and society at large. These principles are explained to be essential in order for the consultancy business companies to truly be ethical, produce the side effect of sustainable and justifiable business success and thereby resolve the commonly perceived contradiction between integrity and management consulting. (Hagenmeyer 2007, 111.)

Ozley and Armenakis (2000, 38) discuss ethics in regards of consultancy line of work and assess the claims related to the unethical nature of consulting by reviewing the most common situations of unethical conduct consultants have been accused of. Based on their analysis the authors offer a model of ethical consulting “building blocks” (see Figure 5) and a checklist for ethical consulting.
The model consists of five steps; the relationship of the consultant and the relationship as the base of all other things, followed by the actions taken during the relationship. The effectiveness of the actions is next, followed by the timely termination of the consulting relationship. On top of all this rests firmly the concept of ethical consulting. (Ozley & Armenakis 2000, 38.) For these steps to go smoothly, the authors provide a checklist, possibly comparable to an ethical code worded in the form questions, to ensure ethical conduct in consulting. The checklist guides the reader through the different phases of the consulting activity, asking questions that link to the five steps, or building blocks, to ethical consulting. (Ozley & Armenakis 2000, 49-50.)

Another code suggested for the consultancy profession members by Association of Management Consultancy Firms (ACME) and German Association of Management Consultants (BDU) in 1991 (in Hagenmeyer 2007, 111) tackles the same issue of ethical consulting practices by providing a list of advices:

- Generally avoid conflicts of interest that could influence the consulting service provided.
- Do not link inappropriate economic interests on the part of the consultant to the consulting services provided.
- Do not foster unrealistic expectations.
• Only take on consulting jobs where consultants have the right expertise and experience and sufficient capacity.
• Clearly define the objectives, scope, procedure and fees for each project.
• Treat clients’ information with absolute professional confidentiality (especially in respect of a client’s competitors).
• Do not poach clients’ staff.

However, the ethical nature of these business principles alone says nothing about the consequences of consulting activity. (ACME & BDU in Hagenmeyer 2007, 111.)

Newman (1993, 152) states that due to the fundamental link between ethics and values, it is imperative that consultants understand their own values and value hierarchies. Clear and prioritized values facilitate ethical judgments and decision making. In regards of self-regulation, values have a central role in establishing personal standards. Established standards together with one’s personal and professional values are usually the primary source of information available for consultants to identify the ethical parameters in given situations. As it is essential that these values are internalized and well understood prior to facing ethical dilemmas, the role of the training is of great importance. Newman (1993, 156) concludes that constructing a code of ethics for consultants might be useful in certain situations requiring ethics driven decision making. However such “mandatory ethics” cannot and should not be expected to take the place of individual responsibility in making judgments and decisions; at best the codes can provide general guidance in making ethical judgments. Because of the unique nature of situations faced in consultancy line of work, consultants must rely on the spirit and not only the letter of their interpretation of ethical principles as well as their own values.

HRM covers a large group of operational level human resources related tasks of different levels, such as recruiting and training but also the strategic human resources management work done by the top management. In addition to be present at every level of the organization, HRM is also done by specialists of the field and by middle management and everyone with supervisory duties. On the other hand, lately HRM tasks and responsibilities like payroll management and human resources development are increasingly being outsourced. (Vanhala 1999, 205.) Even though all organizations have to deal with HRM issues, certain companies make providing services such as
recruitment and training their business. Employment service companies are companies that do business in the field of recruitment activities and other forms of connecting the need for workforce with available workforce resources. The Finnish HPL (Henkilöstöpalveluyritysten liitto) is a union for the employment service companies and its purpose is to represent the industry and actively look after its interests in the Finnish socioeconomic and legal environment. According to HPL, for its over 200 member companies over 90% deal with “renting” out temporary workers and over 70% with recruiting services, making these two the most common and industry defining services provided by employment service companies. Personal assessments come next, followed by headhunting, outsourcing services, international recruiting, psychological tests, outplacement (re-employment assistance) services and coaching and other employee development services. (HPL, 2010) Many of the services provided by employment service companies overlap with the concept of consulting, which can also be seen as a function of many such companies. Also companies identifying themselves as consultancy companies therefore often have a connection with HRM services.

Arguably, because of HRM professions’ close relationship with topics relating to many important aspects of individuals’ lives and society as a whole it can be seen particularly concerned with matters of ethics as well. According to Vanhala (1999, 203–204), the relationship between human resources management (HRM) and ethics has always been paradoxical; there is a definite ethical dimension present in all HRM and yet people seem to not want to talk about it. The discussion has been moderate at best, and the extant literature mostly concentrates on things such as rights of the employees to be treated fairly in regards of compensation, lay-offs and discrimination. However, the literature on the actual relationship of HRM and ethics is scarce. Jansson (1999, 137) states that while some issues relating to topics of motivation, compensation and commitment are for the largest part similar across all business fields, an organization’s field of operations has a clear connection with the kind of HRM related challenges it is most likely to face on a regular basis. Traditional manufacturing businesses often strive to maintain a peaceful working environment through contracts and other practical arrangements. Modern hi-tech businesses need to encourage innovations and new product development within their staff members. In customer service intensive professions ethical principles and dilemmas come alive in every encounter with a customer, constantly testing the professionals’ personal ethical principles and the ethical
principles set by the employing organization. The management professionals of organizations keep running into a broad spectrum of HRM related ethical dilemmas, and for that reason it is so important that the organizations have an ethical code and culture that supports that code. (Jansson 1999, 138.)

The origins of Finnish HRM culture can be tracked to the Nordic model of welfare state – while striving for the “common good”, the system continued to develop in ways beneficial especially for the employees until the beginning of the recession of early 1990’s. The recession turned things upside down; compensation and benefits were cut and new employment contracts were mostly made as temporary instead of permanent. As many were laid off, some of the remaining employees felt like they were crumbling under the increasing personal workload. The Finnish organizations quickly adopted new HR practices like layoffs of employees in order to boost profitability. (Vanhala 1999, 208.) Vanhala (1999, 208) describes the trend as business world version of admiring everything lean and skinny, “organizational anorexia” where many companies have way too few employees in regards to the amount of work. Ideal employees are the ones giving their all for their employers, people willing to commit their entire lives to their work. This attitude combined with the typical Finnish work morale that tends to sanction more than it does reward, it becomes clear why there is demand for ethics discourse over the Finnish HRM practices. Upon considering these challenges, Vanhala (1999, 209) argues that in order for HRM ethics thinking to take root in organizations, a code of ethics should be created for human resources management professions (in Finland). Vanhala (1999) recognizes the challenges of the task; unlike medical or legal professions, HRM does not have one ultimate goal. Instead the professions are heterogenic and deal with a wide variety of issues, most often aimed at looking after the rights and well being of individual employees. At the same time many existing laws, regulations and agreements on recruitment, terms of employment, discrimination and layoffs already create a normative basis for the code. At the turn of the century the field of HRM was faced with a number of new challenges and trends with a clear ethical aspect to them: connecting strategic human resources management with profitability, changes in the employment terms and flexible sourcing of workforce, new developments in the Finnish socioeconomic environment, the concept of life-long learning and diversity management to name just a few. (Vanhala 1999, 206.)
Wiley (2000, 109) states that the existing codes of ethics of HRM professionals are often suboptimal in regards of form, content and therefore ability to affect ethical decision making and behavior. This is because the codes tend to lack organization, clarity, established priorities and sufficient guidance for HR managers. The codes also tend to omit key clauses related to sanctions and penalties, the codes also lacked enforcement. However, the Wiley (2000, 109) found it to be encouraging that such codes exist for nearly all HR-related professional organizations. Moreover, Wiley (2000, 109) found there to be enough similarity among the code items studied to establish core principles of behavior for the HRM professions. (See Figure 6.)

Figure 6: Five frequent professional ethics code items governing professional conduct in HRM (Wiley 2000, 106)

These codified items from the studied HR associations’ codes reveal the importance of professionals’ practicing at 1) high levels of integrity (*integrity*); 2) respecting employees’ rights and obeying laws (*legality*); 3) enhancing their professional
competence (proficiency); 4) supporting the profession and not misusing professional affiliations (loyalty); and 5) guarding the confidentially of privileged information (confidentiality). Therefore these general principles can be argued to define appropriate professional conduct for HR professionals across the field. (Wiley 2000, 109.) Finally, based on her analysis of the existing HR codes Wiley (2000, 111) concluded that firstly, the contents of these codes reveal that (1) they are a set of expectations by which the professionals will be judged by their constituents, (2) they represent the preferred character dispositions that should control the way the profession is practiced by the individual professional, (3) they are designed to support or encourage professionals to act in the interest of the public, and (4) they are – to an extent – catalogs of HR-related ethical problems that have been experienced.

It appears that both HRM and consultancy professions are burdened with fairly unique ethical challenges. What is typical of these challenges is that they cannot be easily solved by following set, rigid guidelines but instead require sophisticated judgment and skill from the professionals. Ethical codes can be seen as important tools in consultancy and HRM professions, but they should be designed and implemented keeping the characteristics of the line of work in mind. While some of the existing or suggested codes for these professions appear to be fairly prescriptive in nature, I believe that detailed rules and instructions are only suitable in limited amount of cases in regards of consulting and HRM professions’ ethical codes.

2.6 Codes of Ethics and Small and Medium Sized Companies

“Small businesses are almost by definition vulnerable; setbacks that might not faze a mismanaged big business can put a small firm out of business in weeks or months. A commitment to ethical practices can translate that vulnerability into a company-wide determination not to take advantage of others who may be either temporarily or permanently in a similar position.” (Barrier 1998.)

While it is common to think putting emphasis on business ethics eats up scarce resources and limits companies’ chances to operate in a profitable way, it has been argued that ethics and CSR are not only very possible, but in fact vital especially for
small and medium-sized companies (Enderle 2004, 51). Still, Davies and Crane (2010, 127) state that most CSR research is on large organizations and nearly ignores small and medium-sized companies. This, they explain, is often thought to be because large companies are seen as what is important about the business world, and that smaller companies are like miniature versions of the bigger ones and therefore able to take advantage of the theories by scaling them down to their size. It is only recently when researchers have begun to see SMEs as a type of organizations that need to be assessed separately from their bigger counterparts. Spence and Lozano (2000, 43) state that in addition to the common problems of unestablished terminology and different degree of practicality and detail of the codes, smaller companies face challenges such as the lack of formal processes to implement dialogue and the restricted resources, together with the lack of definition of roles when communicating their ethical codes. On the other hand the personal proximity and the limited number of employees facilitate effective communication of ethics.

Spence and Lozano (2000, 52) have found that for many smaller companies, the language of ethics is not part of their normal business discourse. However, the fact that the smaller companies tend to have close or even personal relationships with their stakeholders and often very human responses to business life incorporate ethical elements. In the case where a manager-owner of small firm has strong convictions including ethical perspectives, he or she can indeed contribute towards the ethicality of the whole company’s behavior. Vitell et al.’s (2000, 22) research on ethics in small companies supports the claim that the top management’s actions set the ethical tone of the entire company.

Davies and Crane’s research suggests that SMEs are able to use HR related methods in their CRS aspirations. The authors emphasize the importance of employer “buy-in”, meaning support, agreement or acceptance, when striving for their CSR goals. The SMEs they used in their research also demonstrated a willingness to recruit individuals who related to the companies’ values; such ideological congruence was believed to help the new recruits to fit in and also support the organizations’ CSR goals. Undertaking CSR initiatives is also considered to be helpful in attracting better job applicants – the authors believe there is some evidence that supports the notion that a clear social purpose can offset remuneration deficits and that taking pay cuts to work in a CSR-
oriented SME would not be uncommon. This suggests that ethical, responsible SMEs can use their positive reputation to make up for the things they lack as compared to larger organizations. (Davies & Crane 2010, 134-136.)

It appears that for small and medium-sized organizations business ethics play an important but slightly different role than in the case of larger companies. While the SMEs often lack the formal processes that the larger organizations use to implement their ethical guidelines, at the same time they can also benefit from the informal setting. The smaller size might allow more flexibility and possibility for individual consideration. Ethics has also been seen as an effective way for SMEs to differentiate themselves from their larger competitors and make up for the disadvantages they face in terms of attracting new employees. Additionally, while the larger organizations tend to be at the center of the attention of the society, this also means that less scrutiny is paid to SMEs. This all means that the ethical codes SMEs make have the possibility to concentrate on what is deemed important for the company in question and suitable for its particular circumstances in a flexible way, as opposed to constructing long and detailed ethical guidebooks that aim to protect the organization from negative press, lawsuits or society’s disapproval in general by dictating strict rules.

### 2.7 Observations on the Literature and the Theoretical Framework

The examined literature reveals certain aspects of the nature of research and general thinking related to ethical codes. First of all, it appears that formal codes are adopted and expected to be adopted mainly by larger companies (Rudolph 2005, 375) and so also most of the management literature on ethics deals with large companies (Ede et al. 2000, 133). Second, companies operating on international level appear to be significantly more likely to have a written code of ethics than companies which do not generate revenues from international operations (McKinney & Moore 2007, 103). Third, certain professions and industries seem to be more likely to have professional or industry wide codes – something that could be explained by the nature of the profession or industry at least in the case of medical professions and large and affluent industries like different fields of engineering. However, as the case company used in this research is a Finnish medium sized company dealing mainly with management consulting and
development but also human resource management related tasks. To be better able to assess the case company’s process of adopting an ethical code a short review of the literature on codes of ethics in relation to small and medium sized organizations and consulting and HRM related professions was made.

The literature illustrates topics such as the many reasons for the growing prevalence of the different ethical codes of organizations. In addition to these many possible reasons for code adoption, a number of other things affect the content and form of the code. Most researchers agree that a proper implementation is the key to a code’s success in reaching its goals of effecting behavior within the organization in question. The sought benefits arise for the most part from the changes in behavior. This process and its different aspects discussed in the literature review can be illustrated in a form of a figure which here represents the theoretical framework of the study through which the codes can be examined and evaluated. (See Figure 7.)
In the framework presented in Figure 7 the different aspects of the code creation and adoption are illustrated in the form of a simple figure. The starting point of the process is considered to be the external and internal factors that affect and drive the content of the code. The chosen content, through the essential process of implementation, leads to the changes that yield potential benefits such as competitive advantage or reduced risk.
The benefits in turn act as reasons why companies choose to engage into the code creation and adoption process.

The presented framework illustrates the process of creating and adopting a code of ethics as a whole. It can be used to examine and analyze a process as well as the factors that affect the outcomes of the process. This framework was constructed on the basis of reviewed literature and is utilized in analyzing the empirical data.
3 CASE PSYCON

3.1 Company Description

Psycon is a Finnish medium-sized consulting company specializing in personal assessments, strategic resourcing and leadership development. The company was founded in 1953 and currently employs approximately 100 people in a number of Finnish major cities. The turnover of the company in 2011 was over 7,0 million Euros. Psycon Corporation provides human resources and leadership development services to a broad clientele including many large and international client companies operating in Finland and important public administration organizations. The company is also able to offer its solutions internationally through an extensive partner network. (Psycon 2010.)

According to the company website, Psycon is owned by the consultants operating the company making the operation independent and continuous. As its goal, the company names providing their clients with long-term development solutions and long-lasting partnerships. High overall quality, strong professional ethics and expertise along with continuous investments in the staff’s competence and wellbeing is emphasized as the company strengths and commitments. The effectiveness of the solutions offered by Psycon can be measured through modern methods that stand up to international comparison. (Psycon 2010.)

Psycon identifies itself as a management consultancy company. As a company dealing with personal assessments, recruitment and HR development, Psycon also represents a part of the Finnish employment industry. Because of the high levels of expertise needed in the company employees’ line of work, Psycon can also be described as an expert organization. Additionally, based on its size of approximately 100 employees, Psycon can be classified as a medium sized company in the Finnish business environment. The definitions of small, medium and large organizations vary greatly depending on the country or origin, which is why the European Commission’s Enterprise and Industry has issued the Recommendation 2003/361/EC regarding the SME (Small and Medium-sized Enterprises) definition stating that companies with less than 50 employees and a
turnover of less than 10 million Euros are classified as small, and companies with less than 250 employees and a turnover of less than 50 million Euros are classified as medium-sized (European Commission Enterprise and Industry 2011).

Currently the two main areas of Psycon’s operations are personal assessments and consultancy and development of management and superiors. Since the company’s staff consists mostly of both consultants and psychologists with relatively different competency requirements and lines of work, the ethical challenges they face are also different to a certain degree. Because of the strong role of the psychologists in the company, issues related to professional ethics have been an important part of Psycon’s operations from the beginning. Topics such as confidentiality and professionalism are therefore part of the basic values Psycon’s ethical business practices are built on.

During its nearly 60 years of history Psycon has consistently done well in the areas of confidentiality and professionalism. In the 1990’s the company took up a new more active and systematic approach towards becoming an even more customer centric organization and developing the internal processes and competencies. Soon after this Psycon defined its human resource policy goals which later became the basis for the current ethical statement, principles behind the operation. For the past decade the company has been putting more emphasis on creating improved customer collaborations thereby improving the chances of long-lasting, all-encompassing collaborative relationships. It is due to this development that Psycon these days is an organization that puts special emphasis on ethical business practices and striving for ever-improving quality and sustainability.

It is because of Psycon’s continuous interest in responsible and ethical business conduct that also the research project for further developing the code of ethics, principles behind operation, was begun in early 2010. At this time a brief literature review, together with an overview of a few ethical professional codes relating to Psycon’s field of operations was conducted together with 5 semi-structured interviews. The reviewed codes were the applicable part of the Finnish legislation, the code of practice by the Finnish Psychological Association and the occupational rules and principles of professional conduct by the Finnish Management Consultants Association (LJK). Attention was paid to the fact that in addition to legislation, also the Psychological Association’s code is in fact mandatory for professionals operating in the field. In fact the field of business of
personal assessments, an essential part of Psycon’s services, is fairly strictly regulated in regards of privacy (Syrjänen 2006, 207). During the 5 interviews topics such as general company information, stakeholders and perceived potential ethical problems were addressed. Upon finishing the project, recommendations for the code development process were made. The project of 2010 acted as the first steps for this thesis research project.

3.2 Conduction of the Analysis

3.2.1 Research Methods of the Empirical Research

The empirical data was collected by performing 17 interviews on 14 members of the case company Psycon. All of the interviewees had at least slightly different backgrounds and current professional positions within the company. Some of them were new or relatively new company employees while some had a longer history and management or top-management duties – some had also been actively championing or otherwise part of the processes of planning a code of ethics creation and development project. Most of the interviewees were consultants, some also possessing the competency of a psychologist for personal assessments, but also non-consultants were included in the sample of 14 individuals.

The data acquired through the interviews was analyzed by using qualitative, theory driven content analysis technique. The framework constructed on the basis of the literature review presented in Figure 7 was used in classifying the data for analysis purposes. The structured framework allowed it to be compared against the modified framework presented in Figure 8, thus evaluating its applicability in the case of the case company (Tuomi & Sarajärvi 2002, 116). The different themes and categories identified and presented in Figure 7 acted as starting points for simplifying and further categorizing the data. By systematically going through the data and quantifying it under the identified categories, the empirical data was reorganized in a way that allowed the modified framework to be constructed.
3.2.2 Description of the Interviewee’s Current Position and History at Psycon

The 14 informants represented different educational backgrounds, lines of work and positions within the company Psycon. Some had been employed by the company for less than a year while some had more than ten years of history working for Psycon. (See Table 1, 2 & 3.)

Table 1: Location of the interviewees

<table>
<thead>
<tr>
<th>Location</th>
<th>Helsinki</th>
<th>Tampere</th>
<th>Turku</th>
<th>Lappeenranta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewees</td>
<td>9</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 2: Years of employment of the interviewees

<table>
<thead>
<tr>
<th>Length of employment</th>
<th>&lt; 2 years</th>
<th>2 – 8 years</th>
<th>8 &lt; years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewees</td>
<td>4</td>
<td>4</td>
<td>6</td>
</tr>
</tbody>
</table>

Table 3: Lines of work of the interviewees

<table>
<thead>
<tr>
<th>Title/line of work within Psycon</th>
<th>Consultant</th>
<th>Consultant (psychologist)</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewees</td>
<td>7</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>

Most of the interviewees were located in the Helsinki area where the company Psycon has most employees. Three of the interviewees were from Tampere, and two other locations were represented by a single individual each. The interviewees also represented different points of the career path within the company; some of the informants had worked within the company for less than a year whereas some had more than ten years of employment history within Psycon. Both consultants with psychologist's degree and non-psychologist consultants were interviewed, and two of the interviewees had lines of work other than that of a consultant.

The sample of 14 interviewees appears to represent the company members of Psycon relatively well in demographic sense, even though not all locations, lines of work or backgrounds are represented.
3.3 Results of the Empirical Research

3.3.1 The Familiarity With the Company’s Code of Ethics (the Principles behind Operation)

There was great variety in the level of familiarity of the code and related topics among the interviewees. In most cases the interviewees reported not being able to list the five principles behind operation that the current code consists of, or otherwise expressed not being fully familiar with the code’s content. (See Table 4.)

<table>
<thead>
<tr>
<th>Familiarity</th>
<th>Unfamiliar/ named 2 or less principles</th>
<th>Somewhat familiar/ named 3 to 4 principles</th>
<th>Very familiar/ named all 5 principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewees</td>
<td>3</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

In the case of relatively new company members, most of the interviewees recalled there being an overview of the principles during the orientation phase, but reported not being able to fully memorize or internalize the message at that point. Many reported having a hectic work schedule right from the beginning of their employment, or in the case of long-time employees, otherwise during the past months or years even, therefore possibly having less time and energy to focus on the principles and ethical aspects of their work.

Most of the members of Psycon had fairly strong and explicit opinions on the current code; many of the interviewees felt that the spirit of code was good and important. They also felt that the spirit of the principles the code consists of was present in Psycon’s operations and the daily work activities, but that the principles were implicit and not explicit. Several of the interviewees felt that the principles themselves could not be identified in practical work, but that personal and professional identity related ethics or the company culture take the role of ethical guidelines. The practical value of the code was seen as hard to define as the principles remain for a large part abstract. These opinions were expressed by statements such as: “I know what profitability is, I know the business we do is profitable, I think my actions are profitable, but I don’t know if it is
supposed to mean more than what I already know it means. Somehow I would think that if it is written down like that, there must be more to it than just the obvious?” and “I would like to know what constitutes as quality leadership in our everyday work.” These feelings of uncertainty also led some of the interviewees to report what they felt was insufficient familiarity with the code.

Many of the interviewees, some due to their previous active role in developing ethical guidelines at Psycon, felt that they had valuable insights on the issues relating to the process of creating and adopting a company specific code of ethics. These insights related to topics such as what kind of a code would best serve the specific needs of the company Psycon and what kind of obstacles there might be in successful code implementation, considering the structure of the organization and the type of individuals that work within it. However, there were also new company members and individuals with relatively long careers at Psycon but no direct link with the company ethics issues that had ideas and demonstrated interest towards contributing to the process. All together the interviewees appeared to have insight brought on by not just experience at Psycon or formal training, but before all from internalizing personal and professional ethics and long time experience at working for different organizations. This tacit, “silent knowledge” as it was called by some of the interviewees, could possibly prove very useful, providing that it could be harnessed and turned in more explicit information and guidelines.

There were also contradicting opinions on whether or not the principles in fact had an internal hierarchy dictating which ones take priority in ambiguous situations. Profitability was identified as a most powerful of the principles, whereas open cooperation was seen as an often giving way to other priorities.

3.3.2 The Potential Benefits of a Code of Ethics

The potential benefits mentioned by the interviewees could be classified and put under the previously identified groups of potential benefits. In some cases the interviewees identified more than one distinct potential benefit belonging to a single group; for example in Organizational culture, some respondents identified potential benefits for the
company and potential benefits for the individual employees. In many cases the interviewees also mentioned potential benefits that appeared to belong to more than one group of potential benefits; for example both improving organizational culture and protecting the company of its members from risk. (See Table 5.)

Table 5: Identified potential benefits of a code of ethics in the case of Psycon

<table>
<thead>
<tr>
<th>Potential benefits group</th>
<th>Meeting society’s expectations</th>
<th>Competitive advantage</th>
<th>Risk management</th>
<th>Organizational culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewees</td>
<td>12</td>
<td>13</td>
<td>4</td>
<td>10</td>
</tr>
</tbody>
</table>

From the organization’s point of view, a majority of the informants mentioned improved reputation and brand as a benefit that was likely to come out of having a good set of ethical guidelines. Related issues such as ease in attracting new talented and socially responsible recruits, improved competitive advantage leading to improved financial gains were also mentioned. Improving and strengthening the company culture was also seen as a potential benefit. Changes in the surrounding environment towards more demanding in terms or business ethics were also observed – some of the interviewees even reported noticing a substantial change over the past years: “It is not just the tightening legal setting and new rules and regulations, but also our individual customers want to know that their money will get them not only results, but results in a sustainable way.” The interviewees’ views on Psycon’s need to answer to these expectations set by the surrounding society ranged from “We want to seen as a company that puts emphasis of ethical business practices and is a responsible member of the society” to “We cannot afford to be seen as a company that does not make ethical statements.”

As for the benefits for individual company member, the most commonly mentioned potential benefits were the improved sense of clarity on what is expected from the individual, improved personal professional and ethical performance as well as job satisfaction and ease of committing and trusting their employer. Being a member of a truly respectable company was seen as a valuable thing of which individual employees could be proud.
As the overall situation in relation to ethical practices was perceived to be better than at competing organizations, the strong, ethical company culture was referred to in relation of various topics and seen as the biggest factor affecting the ethical behavior within Psycon. The code of ethics was seen as a way of reflecting and supporting that culture, putting it in explicit words and making a clear statement of striving for value creation through uncompromising commitment to ethical business practices.

3.3.3 The Perceived Optimal Content, Form and Implementation of the Code

Almost all of the interviewees were unanimous on that the principles, or the code, would benefit from being slightly more elaborate in order for the individual principles to become clear and more practical. Very detailed, prescriptive rules were seen as undesirable or demotivating, communicating distrust even. The interviewees felt that the general tone of the code should be inspirational as opposed to prescriptive, and that it should be made clear that the code is not simply a tool of control but meant to assist the company members in challenging situations and in avoiding problems. The code should empower the company members to make their own decisions in a responsible way.

The desired ways of implementation were various and in some cases contradicting, but the most popular ones more explicit visibility in the company intranet and especially discussions during live meetings such as weekly meeting or themed all-day meetings for the entire company. All in all the importance of open discussion, as opposed to top-down distribution of information and new regulations, involving all company members was seen as essential in clarifying and defining the true meaning of the principles and bringing them alive in everyday conduct. In addition to discussions and more detailed descriptions of the principles, practical case examples or real life situations used to explain the true essence of the principles were seen as potentially beneficial in communicating the code and bringing it closer to everyday conduct. (See Table 6.)
Table 6: Perceived optimal implementation methods

<table>
<thead>
<tr>
<th>Desired way of implementation</th>
<th>Discussions (live)</th>
<th>Company intranet</th>
<th>More detailed, practical code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewees</td>
<td>10</td>
<td>5</td>
<td>9</td>
</tr>
</tbody>
</table>

Some vague references to implementation methods classifiable as social methods, through social interaction and socialization were made, generally in connection with each individual’s personal ethics and morals: “…so I guess we never really discuss company ethics while having coffee in the break room, but on the other hand I am pretty sure we (Psycon company members) on some level pay attention to what others are doing and maybe pick up something every now and then.” Informal methods such as discussions were still generally seen as the best option because of their interactive nature and the possibility of including all of the company members in them. Communicating the code content through the company intranet can be classified as a formal implementation method.

3.3.4 The Potential Risks and Problems Related to the Code Creation and Other Aspects of the Process

Almost all of the interviewees reported thinking fairly optimistically of the process of developing the code. However, when talking about how they felt about the process in general, especially for those company members who had not been actively participating the code development process so far a very typical answer was along the lines of “I think it is a good idea. In principle it is a great idea, but…”

When prompted to elaborate on the potential risks involved, most informants expressed different degrees of concern relating to the process of developing a code of ethics relating to the content being defined and decided on by a small, non-representative group of company members: “If this (the code) becomes a project of some small group who is then trying to impose it on the rest, there is a very big chance that we (the rest of the company members) cannot and will not internalize it.” Relating to the same issue, some of the informants reported inability to link some of the current principles behind operation to some aspect of their work. For example, *open cooperation* was seen as
difficult to fit together with the generally very independent line of work of the consultants. On the other hand, open cooperation was not commonly seen as contradicting with situations requiring confidentiality. In general the principles were also seen as more likely to be realized and realizable in typical operations, functions and core competencies of the company such as customer service and different consulting tasks, but less likely in cases of situations relating to support tasks like internal communications or billing.

Additionally, the interviewees felt that the reasons why a code is being made or developed further should be communicated efficiently to avoid misunderstandings and prevent feelings of distrust arising: “If we (Psycon) do not have a clear purpose for the code in mind all the way through the process, explaining its purpose for everyone is going to be very difficult.” As Psycon has not had a history of problems relating to unethical culture or other pressing matters urgently demanding for improvements in the area of ethics, the motivation for a code of ethics development process might be unclear to some company members: “I have been told that we are doing pretty well (in regards of ethical business practices) so I wonder why is this important right now? I am busy as it is.” (See Table 7.)

<table>
<thead>
<tr>
<th>Potential risks</th>
<th>Detached, non-inclusive code</th>
<th>Code without a clear goal /purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewees</td>
<td>11</td>
<td>8</td>
</tr>
</tbody>
</table>

The informants also appeared to feel uncomfortable with the idea of calling the current set of principles a code of ethics as this term was new to many of them. Using an alienating name as opposed to a familiar and easy-to-understand name was seen as a minor potential risk for successful code implementation.

It appears that the interviews resulted in identifying a number of risks arising from within the organization. However, risks related to the code of ethics process coming from outside of the organization were not identified during the interviews.
3.4 Summary of the Results and the Modified Framework for Code Creation and Adoption Process

The interview data highlighted several interesting points regarding Psycon’s process of creating or more likely further developing the company’s code of ethics. First of all, at the time of the interviews there was no clear consensus among the company members regarding most of the aspects of the existing code of ethics, and there were considerable differences in how familiar the individual interviewees were with the current code. Regardless, the company’s current situation was seen as good in regards of ethical conduct, but it was not widely linked to the existence of the code – the code, the principles behind operation, were seen as reflecting the company culture, but the code was not seen as directly affecting the company culture.

By utilizing theory driven content analysis technique, a new framework for examining the code creation and adoption process was formulated. This new framework, based on the data acquired through the empirical research, can be compared to the previously formulated theoretical framework presented in Figure 7. (See Figure 7 and Figure 8.)
By comparing the frameworks presented in Figure 7 and Figure 8 certain differences can be seen. Content-wise, the empirical research emphasized the company member’s desire towards adequately detailed and practical code so that advice could be sought in real daily working situations. The language should still be inspirational instead of prescriptive, and the content should consist of general principles according to which the company members should act as opposed to strict rules.
As for the implementation process, in the empirical research informal implementation methods such as open discussion on about the content and meanings of the code content were seen as overwhelmingly popular as compared to formal methods. Social methods were also seen as a possibility. The importance on proper implementation was clearly acknowledged in the empirical data, and a more practical approach was seen as beneficial in bringing the principles of the code closer to every day conduct of the company members.

It appears that for the most part the potential benefits of a code of ethics identified and classified into four groups of potential benefits could also be identified in the empirical research. In the empirical research, however, the emphasis was slightly different and certain issues such as the need to avoid additional external regulation by meeting society’s expectations and managing risks was not brought up in the data. Meeting society’s expectations, gaining competitive advantage and affecting the company’s organizational culture all appeared to be well represented as potential reasons for code adoption in the empirical data.

Also the identified risks linked to the concerns brought up during the literature review, but did not reflect the entire spectrum of potential problems mentioned in the literature. Potential risks and problems arising from improper implementation or ill-fitting content were brought up in the data, but risks coming from outside the organization could not be identified.
4 DISCUSSION AND CONCLUSIONS

4.1 Contribution of the Research and Discussion

The conducted research builds on existing research on different ethical codes. Most of the existing literature on the topic deals with larger companies with international operations, whereas smaller companies have for the most part been ignored. Additionally, certain professions have been more active in creating and adopting codes than others. In this research the emphasis has been on small and medium sized companies, in the context of consulting companies and companies with business activities related to human resources management. The main contribution of this research is to examine the concept of codes of ethics from the point of view of SMEs, consulting and HRM professions.

In the literature review part of this research four main groups of potential benefits and reasons for code creation and adoption were identified: 1) Meeting society’s expectations and demands, 2) Gaining competitive advantage, 3) Risk management and 4) Affecting organizational culture. The results of the empirical research on the case company supported the idea that the potential benefits can for the most part be divided into the four identified groups. However, compared to the results of the literature review, the empirical research results emphasized slightly different benefits and reasons. The main differences were the highlighted importance of competitive advantage and organizational culture in the sense of employee satisfaction, and that meeting society’s expectations and demands was seen as important, but not in the sense of risk management. Risk management in general was not seen as a very important function of a code of ethics.

It is possible that these differences in motives for code adoption and creation are due to the fact that the literature review on the motives for creating and adopting codes of ethics dealt with organizations in general, whereas the case company of the empirical research was a medium-sized company dealing with consulting and HRM related tasks. The literature review on the topics suggests that for SME’s the role of ethics in business
might be different than it is for larger companies. Similarly, the field of operations is likely to make a difference. It was proposed that for smaller companies the importance of high ethical standards is highlighted, as being an ethical business partner and employer and the consequent positive reputation makes up for the disadvantage they normally face in regards of their larger and often well-known competitors. Consulting and HRM related professions on the other hand were seen as professions where ethical conduct plays a more-than-average important part, partly because of the sometimes questionable reputation of the profession and partly because of the professions’ close relationship with issues relating to topics such as confidentiality and personal lives of individuals. The perceived low importance of risk management functions and the fact that no external risks were mentioned even when asked to elaborate on potential related risks of the process might be because of the relatively small size of the case company makes it less likely to receive media scrutiny than some larger organizations.

The empirical research results suggested that for the case company Psycon a non-prescriptive, empowering and inspirational code would be better suited than a very detailed and rule-oriented code as the company members would find it to be ineffective and communicating distrust. Correspondingly, most formal and strictly top-down implementation methods were seen as undesirable, and informal and social methods as more fitting. In the literature review a similar view, proposing that in most cases a principle based code would be more fitting than a restrictive, top-down implemented rulebook was presented. It is possible that this is true especially in the case of modern organizations and professions where independent or creative approach to work is emphasized, as opposed to traditional machine organizations. It is also likely that while larger companies find it important to create and implement codes to maintain control and impose rules, especially in the case of SMEs the codes’ main purpose is not to be a tool for controlling the employees and to be wielded by the management, but a tool for helping the employees make ethical decision and act according to the set ethical standards.

As there was no clear consensus among the interviewed case company members regarding most of the aspects of the existing code of ethics, and as many of them reported not being very familiar with the code itself, it is reasonable to assume that the code implementation process either partly unsuccessful or still incomplete. The
interviewees also reported having heard of the current company code of ethics in situations like the orientation meetings of new employees, but that the information presented during those kinds of events had not made a lasting impression. This might mean that the informal implementation methods described by the respondents had not been successful in helping the company members internalize the letter of the code. It is, however, difficult to evaluate whether or not the spirit of the code had in fact been internalized by the company members, as most believed that the principles were present in daily work, even if they could not be explicitly identified. It is possible that the references to the “principles being present in daily work” imply that informal and social methods of implementing the code have been somewhat successful.

4.2 Managerial Implications and Suggestions for Future Research

It appears that while there was a fairly strong feeling of shared ethical company culture within the company Psycon, in many ways the interviewees reported experiencing the current code of ethics, the principles behind operation, in inconsistent ways. I find that for the purpose of the company being able to adequately assess the personnel-wide attitudes and levels of familiarity with the code content, a questionnaire form filled by all of the company members could have helped to gain valuable information on the current situation. Providing that the company takes on the process of developing the code as recommended by the interviewees and this study and attempts to bring the current principles to more practical level through open dialogue and practical examples, a simple, company-wide questionnaire on the current situation as well as a post-project questionnaire would help to measure the affectivity of the actions taken.

The case company is likely to benefit from continuing the process of developing the code towards a more practical direction. This could be achieved by first having open dialogue with company members to ensure the meanings of the content of the code are shared and understood in a consistent way and then building the code to include some practical examples and connections to the company’s everyday operations. This would contribute towards embedding the code in the daily life of the company therefore eventually help the company members internalize not only the letter but most of all the spirit of the code of ethics.
On a more general level, the research suggests that a code of ethics is a very valuable and versatile tool for an organization seeking to succeed in the modern business climate. The management of an organization can use this tool for many purposes by attempting to affect the decision making and behavior within their organization. While different companies might have different reasons for code adoption, certain professions and types of companies can benefit from it even more as ethics are an inseparable part of their line of business and ways of succeeding. Especially for an SME company dealing with consulting and HRM functions a code of ethics can help combat the ethical challenges typically associated with the line of business and simultaneously help make up for the disadvantages they face compared to their larger competitors. The form and content of the code should, however, be paid careful attention as poorly drafted codes might discourage truly ethical behavior or send demotivating or wrong kinds of messages to company members.

In this research emphasis was put on codes of ethics in the context of small and medium-sized companies as opposed to larger, internationally operating companies. The case company used in this research was a medium-sized company with some international level operations. I suggest that in the future a similar study could be conducted focusing specifically on the codes of ethics of small or micro-sized companies, as this might further help in understanding how the size of the company affects the form, content, implementation and motives behind company specific codes of ethics.

4.3 Reliability, Validity and General Evaluation of the Research

The reliability of the research was affected by many things. I find that one noteworthy factor is that as the first steps of the research were taken over a year before the completion of the research project, as a part of a separate research project. This allowed a relatively long time span during which the issues could be re-evaluated and redefined over and over, and where sufficient time for literature review and gathering background information as well as empirical data was allowed, therefore most likely improving the overall quality of the research.
A factor that limits the reliability of the interviews is that the informants, while of different history and career positions and representing the company members fairly well in demographic sense, were all chosen by the company as opposed to the researcher using a systematic sampling method. It is therefore possible that the interviews do not accurately reflect the opinions and views of the company personnel in general. While there is no reason to assume that the respondents have for example been chosen purposefully to achieve certain kind of results, at this time the possibility cannot be ruled out with perfect certainty.

As in many cases the purpose was to find out the informants’ perceptions and personal views as opposed to absolute facts, it is fairly likely that the data is valid. The interviews were designed to help the interviewees feel comfortable and safe about sharing their personal thoughts without the worry of negative consequences which might follow if the individuals were for example identifiable from their statements, opinions, stories or possible negative testimonials.

While it would have been beneficial to find out if the views, opinions and hopes of the interviewees in some aspects depended on things such as exact line of work, length of career at Psycon or any other variables, the sample of 12 was too small to be divided into smaller samples while still preserving the reliability of the results. In other words, any smaller samples would not have been generalizeable within a reasonable level of reliability and in a way that conclusions could be drawn.
REFERENCES

Literature:


Electronic Sources:

Jäsentutkimus 2010,
on 24.11.2010

on 24.11.2010

Psycon company website,

SME Definition by European Commission Enterprise and Industry,
APPENDICES

Appendix 1: Psycon’s Code of Ethics

The company Psycon’s existing code of ethics, the principles behind operation, as found on the company website.

Principles behind the operation

- **Client-orientation**
  Our clients are our most important interest group. We help our clients to achieve the goals they have set.

- **Quality leadership**
  Our goal is to be the cooperation partner with the highest quality level in the industry. Quality is visible in our high-quality services and strong expertise of our consultants and other customer service staff.

- **Open cooperation**
  We invest in openness and fairness both in external and in internal cooperation.

- **Sustainable development**
  We operate in a responsible and ethical manner. We promote sustainable development for example, by operating in a way required by the Green Office certificate.

- **Profitability**
  In all our operations, we aim at achieving results and measure the impact of our services. Profitability is necessary for long-term and sustainable operation. It also helps us to achieve our other goals.

(Psycon, 2010)
Appendix 2: Outline of the In-Depth Interview Questions

During the in-depth interviews on the topic of the case company’s code of ethics and its development the following themes were discussed.

- The interviewee’s current position and history at the company Psycon
- The familiarity/history with the company’s code of ethics (the principles behind operation)
  - In the case of new employees, how the code had been introduced and communicated
  - In the case of a long-time employee, what are the personal experiences on the code.
- The potential benefits of creating, adopting, implementing and developing a code of ethics
  - From organizational perspective
  - From the perspective of an individual
- The perceived optimal content, form and implementation of the code
- The potential risks and problems related to the code creation and other aspects of the process
- Personal feelings and views on the code and the process
- Anything else that comes to mind

The interviews were mainly open-ended and unstructured. The questions were presented in an informal manner, in order found most appropriate. Where applicable, additional questions were asked to find out more on an issue that was brought up. The interviewees were encouraged to also talk about real life examples, feelings and experiences on the topic.
Appendix 3: The Interview Questions Presented of spring 2010

1) The interviewee’s position and history at Psycon
2) What is the current situation of the process of creating a code of ethics?
3) What kind of rules and regulations already affect Psycon’s operations?
4) What are Psycon’s most important stakeholders?
5) What kind of ethical issues and challenges arise in the consultant’s line of work?
6) Regarding ethics in Psycon’s operations, what else is noteworthy?

Additional questions were presented whenever new relevant topics were brought up.