

# **CORPORATE ETHICS PROGRAMS AS CONTROL SYSTEMS:**

## **Influences of Executive Commitment and Environmental Factors**

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### **BACKGROUND**

#### **Objective:**

- To determine why companies introduce formal programs to manage ethics and why the scope and orientation of those programs vary.

#### **Population:**

- Questionnaires sent to Fortune 1000 companies (year 1994)
- 990 sent; 254 responses received (26%)
- Diverse range of industries represented

#### **Supplemental data:**

- Newspaper articles concerning the companies during the period 1989-1994.

#### Analysis

##### Factors influencing formal efforts to manage employees' ethical conduct

- Government pressure
- Managerial choice: both pro-active and reactive ("bounded autonomy")

##### Control orientation of formal ethics programs: 2 types

- Compliance-oriented (coercive, reliant on punishment)
- Values-oriented (supportive of employees' ethical aspirations and development of shared values)

#### Dependent variables

- Ethics program scope (company's ethics structures and activities)
- Ethics program mode of control (compliance vs. values orientation)

#### Independent variables

- Top management's awareness of United States Sentencing Commission (USSC) guidelines
- Media attention to company's ethical findings
- Presence at Conference Board meetings
- Top management's commitment to ethics
- Control variables (financial performance, company size)

Environmental influences on the scope of ethics programs: 5 hypotheses

- The more that a company's top management is aware of the USSC guidelines, the broader the scope of its ethics program.
- The more media attention a company has received for its ethical failures, the broader the scope of its ethics program.
- A company's presence at Conference Board Ethics meetings will lead to its adoption of a broader-scope ethics program.
- The more strongly a company's top management is committed to ethics, the broader the scope of its ethics program.
- Environmental influences will account for more variance in the scope of ethics programs than will top management's commitment to ethics.

Environmental pressures on the control orientation of ethics programs: 3 hypotheses

- The more a company's top management is aware of the USSC guidelines, the more its formal ethics program will be compliance oriented.
- The more strongly a company's top management is committed to ethics the more its ethics program will be both compliance oriented and values oriented.
- Top management's commitment to ethics will account for more variance in the control orientation of ethics programs than will environmental influences.

Results

All hypotheses supported by statistical analyses of the data.

Questions for further study

- Do broad-scope programs lead to greater employee awareness of ethical issues?
- Does a values orientation lead to unethical behavior?
- Is a compliance orientation or a combined compliance and values orientation most effective?
- Do ethics programs themselves operate in an ethically proper fashion?
- What are the different types of top management commitment to ethics and the consequences of those different types?

Implications for practice and public policy

Executive commitment to ethics has important consequences for ethics governance in companies and managers should take their role seriously. Case-based and theoretical research suggest that values-oriented or combined values- and compliance-oriented programs are more effective, so policy efforts should focus less on increasing the scope of ethics programs and more on fostering top managers' commitment to ethics.