IN BRIEF: PROS AND CONS OF CORPORATE CODES OF CONDUCT

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***Abstract*:** *During the last decade the fight against private sector corruption has intensified. Governments, international organizations, NGOs have prioritise it due to the devastating effects that corruption has on economy, governance and society in general. Private sector corruption has proved as virulent and dangerous as public sector corruption. As a result of government and civil society pressure, corporations have instated new codes of ethics or updated their already existing ones to meet the anti-corruption demands. However, their efficiency has proven weak. Scholars and practitioners have been engaging in different debates focused on the pros and cons of corporate codes of conduct. The present article summarises the results of these debates, underlining the features of an efficient code of conduct.*
***Keywords*:** *codes of ethics, codes of conduct, business codes, corporate codes.*

1. INTRODUCTION

Having control over business activities, employees, money and public image is essential in managing a company. However, companies are under a lot of pressure to achieve growth in spite of the economic, political and social turmoil our world is facing today. Unethical behaviour seems to be sometimes the easy way to achieve financial gains. Thus, the risk of corruption in the private sector remains strong.

One of the management tools used to maintain control over a business is the code of conduct. Various international organizations such as United Nations Office on Drugs and Crime (UNODC), World Bank, Organization for Economic Co-operation and Development (OECD) and Transparency International have issued guidelines and given recommendations on developing corporate codes of conduct. However, these guidelines are more focused on adopting codes of conduct that will generate economic benefits, rather than focusing solely on fighting corrupt practices for ethical reasons.

Since the ‘90s companies have adopted codes of conduct or have upgraded their old ones in order to adjust corporate behaviour to economic, social and legal requirements. Thus, an impressive number of companies around the world have followed this trend. Different studies around the world prove it. A study done in 2004 revealed that 69% of the largest 25 companies in the United States (US), United Kingdom, and Sweden had a code of conduct published on the Internet. It seems that codes of conduct were most common among United States companies (88%), followed by European companies in general (64%), and Swedish companies in particular (56%) (Ljungdahl, 2004). Also, multinational corporations operating in emerging economies such as BRICs' countries have been adopted codes of ethics. For example, 189 companies out of 500 companies operating in Brazil have adopted codes of conduct (Ardichvili, 2013).

Codes of conduct are relatively new. Their history can be traced back to the United States in the 1950s and then in the 1970s, when American parent companies have developed such codes for their subsidiaries operating in Europe.

However, the name and content of codes of conduct varies from company to company, according to their size, organisational culture, operating business environment, their specific business activity and their commitment to follow business ethics. A code of conduct has been described as "a written, formal document consisting of moral standards and guidelines intended to help guide employee or corporate behavior" (Giorgini, p.1, 2015; Schwartz, 2002). Different synonyms such as code of ethics, business code, code of practices, business principles, code of business conduct etc. are used to describe the set of conduct rules that companies operate under. However, their different names have sometimes produced confusion in the literature.

The concept of corporate code of conduct has suffered an evolution triggered by changing social and economic needs. Thus, in the 1950s codes of conduct were merely describing the company mission, values and goals, giving directions to employees in order to serve the company interest and increase its profits. Today, corporate rules of conduct are also oriented towards the public needs, emphasizing corporate responsibility when it comes to serve public economic and social goals.

However, the content and the focus of codes vary greatly around the world, influenced by the continental business culture that companies have been created and/or operate in. For example, United States companies are favoring codes of conduct while European companies do not. This is due to United States long tradition of corporate codes of ethics. Also, US codes are focused more on rules regarding employees' behavior that ensure fairness and equity, while the European codes are emphasizing the general business principles and the relationship the company develops with the stakeholders (Kaptein, 2004). Also, at the European level, codes of conduct rules vary. For instance, French companies' codes are enforcing rules that concentrate more on customer relations and just as British companies' codes do, they are emphasizing the idea of common responsibility of all employees in spite of their position in the company. German companies' codes are focused on the idea of shared responsibility between management and the rest of the employees (Langlois and Schlegelmilch, 1990). In comparison, US corporate codes of conduct seem better harmonised than the European ones.

It is obvious that companies are developing codes of conduct for different reasons and under different circumstances, making their assessment difficult. Thus, the necessity and efficiency of such codes might not be always clear, generating debates and controversies.

2. THE PROS OF CODES OF CONDUCT

During the last decade, codes of conduct have been mostly voluntarily adopted by companies that are trying to protect their interests and, also, in some cases, the public interest. Thus, having a code of ethics has become the rule in corporate culture. However, how well these codes serve companies goals and public interest alike needs to be seen. Pros and cons have been outlined by business community, civil society, academia representatives and different NGOs representatives.

The reasons companies develop codes of conduct are many and different, illustrating their business conduct policy: to respond to consumer pressure and social concerns, to avoid negative media, to improve and protect corporate reputation by emphasizing corporate social responsibility and community involvement, to limit negative externalities, and to actually provide for the public good. At the same time, codes of conduct can be an effective tool against corporate corruption by keeping under control employees' behaviour in order to prevent wrongdoing that could have social and economic adverse effects.

Thus, codes of conduct can be useful for the corporation, its stakeholders, and the community that bears the effects of corporation activity.

Empirical studies show that codes of conduct will help cement a corporation's good reputation, improve the working climate inside a corporation and its business performance (Kaptein & Schwartz, 2008). At the same time, the rules of conduct will prevent unethical and illegal wrongdoing, making employees' behaviour more predictable.

As studies show, the main reason companies develop codes of conduct is to self-protect themselves, usually preventing conflict of interests at company level (Stevens, 1994). Also, a code of conduct may be used as evidence in a criminal case to show that an employee had knowledge of a prohibited activity or action and the company was pro-active in preventing it. Main sanctions for the employees that are breaking conduct rules are: termination, suspension, demotion, probation, appraisal comments, and other penalties.

In recent years, codes of conduct have become part of governmental compliance programmes that target illegal behaviour and aim to ensure fair market competition. For example, companies have voluntarily adopted such codes as a result of strong governmental legal actions aimed at curbing private sector corruption. Usually, companies prefer self-enforcement rather than governmental one, the last being disruptive to business. United States Foreign Corrupt Practices Act (FCPA) stronger enforcement had such an effect on US companies.

Another advantage of codes of conduct is the fact that these tools can be adjusted to a company's needs. Companies can enforce rules meant to prevent and sanction first hand illegal and/or immoral employees' behaviour that is sometimes hard to detect, such as corruption.

At the same time, codes of conduct can increase profitability and generate higher financial gains for the company and its employees. Codes could sustain the success of a company and also of the local economy, in general. This is a natural effect that ethics have, since people do business with other people they trust. A recent survey on corporate corruption in Europe, the Middle East, and Africa shows that growth and ethics is a match, since respondents who reported revenue growth in their business were having a code of conduct in place that reflected ethic policy, state penalties for wrongdoing and deliver training and support for whistleblowers that report corruption and fraud (Ernest & Young, 2015). Also, indirectly, the positive effect of codes of conduct on the success of a business reflects as well on people willingness to work for such a corporation and also on investor's loyalty and on customer satisfaction.

Companies that follow business ethics are helping their employees work better. The ethical environment makes employees feel appreciated and secure, knowing that honest and ethical conduct is the norm and any violation can be promptly reported to the appropriated person indicated by the code.

In some cases, codes of conduct generate a "clean" marketing image for a company. Investors could be attracted not only by financial growth but also, by the moral, ethical driven business activity that a company performs. Also, customers prefer sometimes to buy certain products not only for their quality or their good price, but also knowing that these come from a company that conducts an ethical business activity.

Overall, there is no doubt that codes of conduct could serve both the private and public interest. However, not always their efficiency prevails.

3. THE CONS OF CODES OF CONDUCT

The existence and the use of corporate codes of conduct have been under scrutiny and critiques have been raised due to the corporate scandals that in recent years have augmented. These companies had codes of ethics but they have chosen to ignore them.

Arguments against codes of conduct come both from the public but also from the business representatives as well.

Codes of conduct proved inefficient since massive scandals such as Enron accounting scandal or Volkswagen emission scandals occurred.

It seems that codes have been developed as a mere response to public and governmental pressure on corporate social responsibility, generating a trend. In reality, the public believes that ethics are just ignored by corporations and codes are often used as a marketing tool, attracting customers' and investors' sympathy and thus, promoting the business on ethical grounds.

Codes of conduct are not binding by nature; they are just stating internal rules that have to be followed by employees. How well these rules are obeyed remains a matter of internal control and sanctioning since there is no "ethics police", external to the company. Thus, if the company does not encourage its employees to respect rules of conduct and efficiently monitor it, then they remain futile (Baker, 2007).

Other criticism focuses on the broad, vague language of the codes, especially when it comes to stating the rights of the employees and explaining the mechanism used by the company for self-evaluation. As a result, codes are not specific enough in order to shape moral behaviour and to sanction misconduct. At the same time, codes could be used against employees, containing provisions that limit their freedom to speak out and unveil unethical behaviour for fear of retaliation. In short, the content of codes varies greatly since corporations usually ignore international standards when they draft their rules of conduct. This makes their worldwide enforcement difficult, if not impossible.

Codes of conduct should address all employees, not only top management, since ethics concerns the company as a whole. Also, the codes that use a top-down approach proved to fail for a number of reasons. For instance, moral principles and rules are ignored by management at investors' pressure. It is the case of Enron management that choose to ignore the code, serving its interest. Thus, unless there is commitment from all employees, no matter their rank, to implement and respect rules of conduct, codes remain useless.

From a corporate perspective, codes of conduct could also present some disadvantages. Drafting and implementing rules of conduct is usually seen as expensive and time consuming on a short-term. These add to "dangerous", since companies expose themselves to litigations if they fail to follow their own written rules of conduct. Codes of conduct could reveal corruption problems that companies want to hide. Making them public will generate bad publicity and the loss of financial profits obtained by engaging in corruption activities.

Also, corporations operating worldwide could be exposed to different conflicts of interest due to incongruence between their codes of conduct and national laws of the countries they operate in, especially when it comes to human rights issues (Kokemuller, 2015).

Corporations do not have enough incentives to adopt codes of conduct. International provisions and national laws offer little or no protection to companies that follow ethics   Thus, while UNODC, World Bank, OECD members and the United States in particular have urged corporations to adopt a common code of conduct, they have been resistant to do so due to the disadvantage it would place them at in the business world with other countries who do not commit to ethical practices (Torsello & Venard, 2015).

In spite of the many arguments raised, it seems that the efficiency of codes of conduct in curbing unethical behaviour lies with its integration in the corporate culture and with its optimum communication to the employees.

CONCLUSION

The fight against unethical, corrupt behaviour has become one of the present day social challenges. Society expects integrity, transparency, accountability, professionalism and efficiency from both, public and private actors. As a result, the corporate codes of conduct need to better reflect the present dimensions of corporate responsibility in terms of economic, social and legal requirements, serving both the public and corporate needs.

Codes' efficiency has been under constant scrutiny. Scholars and practitioners alike have raised arguments for and against the adoption of written rules of conduct. This proves that creating a culture where ethics rule is a challenging endeavour. However, if codes of conduct will be drafted according to common international standards and their existence will be mandatory for all corporations around the world, then codes of conduct will become a long-term investment that could help curb corruption and bring economic and social benefits.

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