From Symbolic to Substantive Documents: When Business Codes of Ethics Impact Unethical Behavior in the Workplace

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ABSTRACT AND KEYWORDS	
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A business code of ethics is widely regarded as an important instrument to curb unethical behavior in the workplace. However, little is empirically known about the factors that determine the impact of a code on unethical behavior. Besides the existence of a code, this study proposes five determining factors: the content of the code, the frequency of communication activities surrounding the code, the quality of the communication activities, and the embedment of the code in the organization by senior as well as local management. The full model explains 30.4% of unethical behavior while the explanatory value of a code alone is very modest.

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Preventing unethical behavior in the workplace is a significant management challenge. Not only is unethical behavior, defined as behavior that violates generally accepted moral norms (Jones, 1991), widespread (Compliance and Ethics Leadership Council, 2008; KPMG, 2008b), the costs involved for companies, their stakeholders and society in general are high (Karpoff, Lee, & Martin, 2008). Moreover, members of company boards increasingly risk high penalties and long prison sentences in the face of serious damage caused by unethical behavior that could reasonably have been prevented (Bamberger, 2006).

A business code of ethics (BCE), which can be defined as a document in which a company sets out its moral standards, is the most frequently cited instrument for preventing unethical behavior in the workplace (Kaptein & Schwartz, 2008). Companies are increasingly pressurized by their stakeholders or even legally obliged to adopt a BCE (Canary & Jennings, 2008; Sethi, 2002; Waddock, Bodwell, & Graves, 2002). As a result, nowadays many companies also have a BCE. Of the Fortune Global 200, 87% has a BCE (KPMG, 2008). On national level the adoption of BCEs is also widespread (Bondy, Matten, & Moon, 2004; Canary & Jennings, 2008; Carasco & Singh, 2003; Svensson, Wood, & Callaghan, 2006). A key question that follows this development is to what extent BCEs prevent unethical behavior.

To date, we empirically know little about the extent to which BCEs actually prevent unethical behavior in the workplace and under which circumstances this holds true. Only a few studies about the impact of BCEs on unethical behavior in the workplace have been carried out and with mixed results. Survey research conducted by Farrell, Cobbin and Farrell (2002) of 545 employees and 25 managers of 8 different companies found that BCEs are ineffective. By contrast, Adams, Tashchian and Shore's (2001) study of 766 members of the U.S. working population, which found that codes lead to a

decrease in violations, demonstrate the effectiveness of BCEs. A conceivable reason for these mixed, what Helin and Sandström (2007, p. 254) even call "misleading", results is that the effectiveness of BCEs is determined not only by the existence of BCEs - the only explanatory variable which is usually used - but also, and especially, by other factors. In this paper, five additional explanatory variables will be proposed and tested: the frequency of communication activities surrounding BCEs, the quality of the communication activities, the content of BCEs, and the embedment of BCEs in the organization by senior as well as local management.

The remainder of the paper is structured as follows. First, a hypothesis is developed for each of the proposed factors that may influence the impact of BCEs on unethical behavior. This is followed by a discussion of the method employed and the findings of the study. The paper concludes with an overview of the implications for future research and management practice. Regarding the question of Stevens et al. (2005) as to whether BCEs are substantive or symbolic documents - whether they influence behavior of employees or not - we will find that BCEs are largely symbolic documents when only their existence is considered. They become substantive documents when their content, communication and embedment are acknowledged.

HYPOTHESES

A BCE is a device for self-regulation (Schwartz, 2001), developed for and by a particular company. A code *of* business is one of the layers of the whole spectrum of codes *for* business consisting amongst others of professional, industry, national and international codes. Scholars refer to BCEs by different names (Cressey & Moore, 1983), such as code of conduct (White & Montgomery, 1980), business principles (Sen, 1997),

corporate credo (Benson, 1989), corporate philosophy (Ledford, Wendenhof, & Strahley, 1995), corporate ethics statement (Murphy, 1995), code of practice (Schlegelmilch & Houston, 1989), and integrity code (Petrick & Quinn, 1997). Based on an analysis of existing definitions, Kaptein and Schwartz (2008, p. 113) developed the following definition: "A business code is a distinct and formal document containing a set of prescriptions developed by and for a company to guide present and future behavior on multiple issues of at least managers and employees toward one another, the company, external stakeholders and/or society in general." The level of these behavioral prescriptions can range from general to specific. That is, from a mission statement or credo (Pearce & David, 1987), beliefs (Weber, 1993), principles (Frederick, 1991), values (Claver, Llopis, & Gascó, 2002), and responsibilities (Langlois & Schlegelmilch, 1990), to guidelines (Ethics Resource Center, 1990), procedures (Sikkink, 1986), standards (Ottoson, 1988), and rules (Weller, 1988). Behavioral prescriptions are related to issues such as product quality, profits, competition, labor conditions, human rights, environment, confidential information, conflict of interests, fraud, corruption, and (sexual) harassment (cf., Kaptein, 2004).

Views on the effectiveness of BCEs range largely from counterproductive (Grundstein-Amado, 2001), ineffective (Ladd, 1985), often ineffective (Warren, 1993), insufficient (Kram, Yeager, & Reed, 1989), not enough (Cordeiro, 2003), uncertain (Myers, 2003), doubtful (McCoy, 1985), little impact (Lere & Gaumnitz, 2003), minimal (Treviño, Weaver, Reynolds, 2006), not very effective (Robin, Giallourakis, David, & Moritz, 1990), and less effective than their proponents think (Doig & Wilson, 1998), to needed (Rezaee, Elmore, & Szendi, 2001), necessary (Cooper, 1990), valuable (Wood & Rimmer, 2003), vital (Coughlan, 2005), invaluable (Sethi, 2002), effective (Clarkson & Deck, 1992), successful (Dobson, 2005) and extremely valuable (Stevens, 2004). A

review of 79 empirical studies by Kaptein and Schwartz (2008) shows that the empirical findings on the effectiveness of BCEs are equally divergent: 35% of the studies found that BCEs are effective, 16% found that the relationship is weak, 33% found that there is no significant relationship, and 14% yielded mixed results. One study even found that BCEs could be counterproductive.

These mixed findings can be attributed to the fact that the mere existence of BCEs does not necessarily amount to its effectiveness. As Bowie (1990), asserts, codes alone cannot reduce unethical behavior, or as Helin and Sandström (2007, p. 262) remark, their influence on behavior "cannot be taken for granted". In a similar vein, Cooper (1990, p. 8) notes that "A code of ethics cannot make people or companies ethical. But nor can hammers and saws produce furniture. In both cases they are necessary tools, which need intelligent design and use". To understand – and improve - the influence of BCEs on unethical behavior, we have to examine and attend to those factors pertaining to intelligent design and use. In this paper, five factors are proposed, each resulting in a hypothesis that will be tested in the next section. First, we will develop a hypothesis about the relationship between the mere existence of BCEs and unethical behavior in the workplace.

Existence of BCEs

Much research has been conducted about the adoption of BCEs by companies (e.g., Brooks, 1989; Canary & Jennings, 2008; Carasco & Singh, 2003; Cressey & Moore, 1984; Schlegelmilch & Houston, 1989; White & Montgomery, 1980). According to Somers (2001) and Stevens (2004), a BCE has significant intrinsic value. A BCE communicates to its audience the importance of ethics; that the company takes ethics

seriously and that ethics is a necessary condition for doing business (cf., Stohs & Brannick, 1999). BCEs are generally perceived as the "first step" (Wood & Rimmer, 2003, p. 192) and "good start" (Stevens, 1999, p. 113) towards reducing unethical behavior in the workplace.

The question is to what extent the existence of BCEs is related to the prevalence of unethical behavior in the workplace. Are companies with a BCE less confronted with unethical behavior than companies without a BCE? Based on structured interviews with 348 managers in Irish companies, Stohs and Brannick (1999, p. 322) conclude that "codes are important for setting the tone". Peterson (2002) found that unethical behavior occurred more frequently in companies without a code. And based on empirical research, Schwartz (2001, p. 260) concludes that "actual examples of modified behavior due merely to the existence of a code of ethics exist". This leads us to the first hypothesis for the current study:

> *Hypothesis 1:* The mere existence of BCEs is negatively related to the frequency of unethical behavior in the workplace.

Frequency of communication activities surrounding BCEs

Some studies employ the existence of a BCE as independent variable to demonstrate its effectiveness (e.g., Carasco & Singh, 2003; Lugli, Kocollari, & Nigrisoli, 2009; Ryan, 1994; Singh et al., 2005; Valentine & Barnett, 2002, 2004). Other scholars argue that the mere existence of a BCE is a bad predictor of unethical workplace behavior. They argue that a BCE has little meaning if its implementation is not taken into account (Embse & Desai, 2004; Helin & Sandström, 2007; Marnburg, 2000). According

to Weaver, Treviño and Cochran (1999b, p. 286), BCEs "presumably are ineffective unless distributed to employees". A code is not "self-sufficient" or a "stand-alone document" (Wood & Rimmer, 2003, p. 192). Without being able to read the code, managers and employees will not have the opportunity to familiarize themselves with its content. Dean (1992) and Sims (1991) argue that employees must be aware of the content of the code before it can affect their behavior. The explanation Kohut and Corriher (1994) gave for their finding that codes had no significant impact on the behavior of employees was that the codes were hardly communicated.

Next to the distribution of the BCE, other communication activities can stimulate employees to read, understand, and apply the code. In the words of Weaver, Treviño and Cochran (1999b, p. 287): "Merely distributing a code […] does not guarantee that anyone reads it…" Possible communication activities include sending around internal memos, e-mails and newsletters, putting up posters and providing information on bulletin boards and the Intranet, showing CD-ROMs, DVDs or videos, elaborating on the code in more detailed policies, procedures and manuals, and organizing internal training and discussion sessions. Many scholars emphasize the importance of these formal communication activities (Murphy, 1988; Helin & Sandström, 2007; Schwartz, 2004; Somers, 2001; Stevens, 1994, 2008). Without communication activities, managers and employees may consider the BCE as hollow words, a public relations exercise, or window-dressing (cf., Wood & Rimmer, 2003). The frequency of communication activities indicates how seriously the company takes the BCE and how seriously managers and employees should take it. It is therefore important that communication activities regarding the BCE take place regularly to reinforce its importance, to focus the attention of management and employees, and to imbue the code with life.

Several studies have examined the way in which BCEs are communicated (KPMG, 2008a; Weaver, Treviño, & Cochran, 1999b), but only a few have examined the effectiveness of these communication activities. For example, in their study among 302 senior financial executives Stevens et al. (2005) found that BCE training programs were positively related to ethical decision-making. As far as can be established, no study has examined the influence of communication activities on the frequency of unethical behavior in the workplace. Therefore, the second hypothesis reads as:

> *Hypothesis 2:* The more frequently communication activities regarding BCEs take place, the less unethical behavior occurs in the workplace.

Quality of communication activities regarding BCEs

Research into the communication of BCEs is usually limited to how BCEs are communicated (e.g., Kaye, 1992; Stevens et al., 2005). For example, Weaver, Treviño and Cochran (1999b) paid attention to the frequency of ethics communication next to the existence of BCEs. The question is whether frequent communication of BCEs is sufficient. We propose that the quality of communication activities surrounding BCEs is also relevant to explaining the influence of BCEs on unethical behavior.

For a BCE to be effective, it is important that its meaning and the implications for behavior are understood and that individuals are equipped to apply the BCE in practice (McCabe & Treviño, 1993; Seeger & Ulmer, 2003). “Effective communication is pivotal to ethical code effectiveness” as Stevens (2008, p. 606) argues. It is thus not only important that communication activities occur frequently (Hypothesis 2) but that they are of adequate quality. Weeks and Nantel (1992) have conducted a study that includes

quality of communication activities as explanatory factor for unethical behavior. In their study among sales force people, quality of communication was operationalized as the extent to which employees understood the code. Unfortunately, they did not find any significant results. It is nevertheless unlikely that the quality of communication activities is irrelevant. Indeed, it is possibly even more important than the frequency at which different communication activities take place. As companies increasingly employ more communication activities regarding their BCE because of stakeholder pressures and legal advantages (KPMG, 2008a), the difference between companies with and without effective BCEs lies not so much in the quantity of activities, but more in the quality of the activities. The third hypothesis thus reads as follows:

> *Hypothesis 3:* The better the quality of the communication activities surrounding BCEs, the less unethical behavior occurs in the workplace.

The content of BCEs

Although many studies have analyzed the content of BCEs, most studies on the effectiveness of BCEs ignore content (e.g., Adam & Rachman-Moore, 2004; Andreoli & Lefkowitz, 2008; Treviño, Weaver, Gibson, & Toffler, 1999; Valentine & Fleischman, 2008). Given that the content stipulates what type of behavior is prohibited and acceptable one would expect it to have an influence on the effectiveness of the BCE (Benson, 1989; Cowton & Thompson, 2000; Farrell & Farrell, 1998; Finegan & Theriault, 1997). A blank code will be devoid of any message. In their research of 240 Canadian firms, Donker, Poff and Zahir (2008) found that the more values were mentioned in the code the better a company's performance was (measured by the market value of the compa-

ny's equity divided by the book value of the company's assets). However, using undergraduate business students in a laboratory study, Weaver (1995) found that variations in the content of codes were of little consequence to their effectiveness. Cleek and Leonard (1998) found that variations in code design had some – although not a statistically significant – effect on their effectiveness. On this basis, they conclude that wording and content are perhaps not as important as the way in which the code is communicated. Adams, Tachchian and Shore hold an even more extreme view: "…the mere presence of a code of ethics is more important than the content of the code per se" (2001, p. 208). Nevertheless, that there are other important factors to be taken into account does not imply that content is unimportant. We may expect that the frequency of unethical behavior depends not only on the existence of a BCE and the frequency and quality of communication activities, but also on the content of the BCE. This leads to the following hypothesis:

> *Hypothesis 4:* The better the content of BCEs, the less unethical behavior occurs in the workplace.

Embedment of BCEs in organization by management

While Hegarty and Sims (1979) concluded that clear codes discourage unethical behavior, they also identified a number of other elements of the internal organizational context that play a role, such as the presence of enforcement mechanisms. The importance of enforcement mechanisms set by management is supported by the findings of an experimental study by Laczniak and Inderrieden (1987) involving MBA students in an in-basket exercise. The findings suggested that BCEs only have an effect if sanctions

are attached. Ferrell and Gresham, who developed a contingency model, asserted that "codes of ethics that are enforced will produce the highest level of compliance to established ethical standards" (1985, p. 93). Next to enforcement mechanisms, several other aspects of the embedment of BCEs are relevant to their effectiveness, such as role modeling and target setting by management.

Weaver, Treviño and Cochran (1999a) found that the commitment of the board and executives can have an important influence on the effectiveness of BCEs. Top management is also primarily responsible for integrating BCEs in the daily practices of companies. Petersen and Krings (2009, p. 10) found in their experiments on the effect of BCEs on employment discrimination that "if management doesn't walk the talk" BCEs become "toothless tigers, no matter how detailed and specific they are". The way targets are set by management may also influence compliance with the code. Treviño (1986) argues that people under great time pressure are less inclined to pay attention to moral norms than those who have sufficient time at their disposal. Schweitzer, Ordóñez and Douma (2004) found empirical evidence that people with specific goals, and especially goals with economic incentives, were more likely to engage in unethical behavior than people who were expected just to do their best.

Therefore, we may expect that the pervasiveness of unethical behavior is influenced by the degree to which BCEs are embedded in the organization. In their study focusing on health and safety rules, McKendall, DeMarr and Jones-Rikkers (2002) found that codes do not lead to fewer violations. Although they took the communication of BCEs into account they suggested that BCEs are mere "window dressing" if attention and responsibility for illegal behavior is diverted from companies. Had McKendall et al. included the role of embedment of BCEs in the organization by management, it could have supported their conclusion and also allowed them to identify situations in which

codes are or could be effective. The same holds true for the research conducted by Mathews (1987). She studied 202 Fortune 500 firms finding neither the adoption of codes nor their content to have a significant impact on the reduction of unethical behavior. However, to conclude that BCEs cannot be effective would be premature as she omitted the communication and embeddedness of BCEs, which could make the difference between effective and ineffective BCEs.

As shown by empirical research of Kaptein (2008), embedment of ethics by management falls into two categories: senior management (management outside the business unit such as executives, board members, and directors) and local management (management within the business unit such as supervisors). With regard to the effectiveness of BCEs, we may also expect that senior management has a different impact than local management. On the one hand, as Mayer et al. (2009) observe, there is a school of thought on this topic that holds that top management has the strongest influence on the ethics of the organization and the behavior of employees because they exercise the most authority, set the tone and are the architects of the organization. The second school maintains that local management has the strongest influence due to their proximity to and frequent communication with employees, Like Mayer et al. (2009), we will not follow an either/or approach and rather treat the two management levels as separate factors to explain the impact of BCEs on unethical behavior. Therefore, our fifth and sixth hypothesis read as follows:

Hypothesis 5a: The better BCEs are embedded in the organization by senior management, the less unethical behavior occurs in the workplace.

Hypothesis 5b: The better BCEs are embedded in the organization by local management, the less unethical behavior occurs in the workplace.

Relative importance of BCE factors

When different factors influence the impact of BCEs on unethical behavior, the question arises as to what the relative importance is of the individual factors. Which factors are crucial to optimizing a BCE? Research suggests that actions speak louder than words. In a study by Trevino et al. (1999), ethics programs were found to be relatively unimportant compared to ethical culture. Another study by Trevino and Weaver (2001) shows that employees' perception of the importance of ethical behavior is strongly influenced by the way in which management deals with ethical issues. Employees are more likely to deduce the desired BCE from the behavior and practices of their managers than from the document itself. We therefore expect the embedment of BCEs by senior and local management to have a greater impact on unethical behavior than the formal factors, i.e., the existence of a BCE, its content and the frequency at which it is communicated. Similarly, and as already discussed with respect to Hypothesis 3, we expect that the quality of communication activities surrounding BCEs to be more important than the frequency of communication of BCEs. Following Cleek and Leonard (1998), we also expect communication of BCEs to be more important than their content. In contrast to the view of Adams, Tachchian and Shore (2001) that the mere presence of BCEs is more important than their content, we expect that the content of BCEs is more important than their mere existence. As more companies adopt a BCE, the less distinguishing it becomes to have a BCE and the less a BCEs as such expresses a company's commitment to prevent unethical behavior. At the same time, the difference in content of BCEs (Kaptein, 2004) does say something about the level of commitment of a company. To conclude, we come to the following four sub-hypotheses:

Hypothesis 6a: The embedment of BCEs by senior and local management has a stronger negative relation to unethical behavior in the workplace than the existence, content and formal communication of BCEs.

Hypothesis 6b: The quality of communication of BCEs has a stronger negative relation to unethical behavior in the workplace than the frequency at which BCEs are communicated.

Hypothesis 6c: The communication of BCEs has a stronger negative relation to unethical behavior in the workplace than the content of BCEs.

Hypothesis 6d: The content of BCEs has a stronger negative relation to unethical behavior in the workplace than the existence of BCEs.

Interactive effect of BCE factors

The hypotheses above depart from the assumption that each individual factor can reduce unethical behavior in the workplace. That is, that the embedment of BCEs in the organization by management, for example, has a negative influence on unethical behavior, regardless of the presence or absence of the other factors. Of course, a BCE has to be in place (Hypothesis 1) in order for content, communication and embeddedness to exist at all. And quality of communication activities can only be discerned (Hypothesis 3) if at least one communication activity exists (Hypothesis 2). But what is the relationship between the other factors? Are BCEs only or especially effective when all of the above factors are present in a company? Are they all necessary conditions for BCEs to reduce unethical behavior? Or do they reinforce each other's influence on unethical be-

havior, so that the influence of all the factors together is more than the sum of the influence of the individual factors?

The interactive effect of two or more BCE relevant factors has not been examined to date. We may expect the combined effect of all the factors to be greater than either on its own. A BCE with good content will be easier to communicate and embed since it is more likely to receive support from employees. Also, the more a BCE is communicated the easier and better it can be embedded: employees would already be acquainted with the BCE and would understand when, and even expect, the BCE to be embedded. And also the more a BCE is embedded, the more effective additional communication activities will be: employees will be more receptive for communication activities as they know that these communication activities are not a stand-alone activity but part of a broader program to embed the BCE. At the same time, the factors can influence unethical behavior independently. A minimum level of communication surrounding BCEs is needed to familiarize managers and employees with the BCE, but more is not required, for example, for management to embed BCEs in the organization.

At the same time, given the crucial role of embedding BCEs by senior and local management, we expect that if both these factors are largely or completely absent, the other factors will have no impact on the frequency of unethical behavior. Despite having a high-quality BCE that is communicated well, employees will perceive the BCE as "useless artifacts" (Stevens, 1999, p. 170) if it is not embedded by neither senior nor local management, with the result that it will not reduce unethical behavior (McCabe, Treviño & Butterfield, 1996). The final two sub-hypotheses read as follows:

Hypothesis 7a: The frequency of communication activities regarding BCEs, the quality of communication activities regarding BCEs, the content of BCEs, and the

embedding of BCEs in the organization by senior and local management have mutually interactive effects with respect to the reduction of unethical behavior in the workplace.

Hypothesis 7b: BCEs, their content and communication are unrelated to unethical behavior in the workplace if embedment in the organization by senior and local management is (largely) lacking.

METHODOLOGY

Sample and Procedure

Studies on the effectiveness of BCEs have often used samples comprised of students (e.g., Clark & Leonard, 1998; Hegarty & Sims, 1979; Weaver, 1995). Other studies have used one or a few companies as sample (e.g., Adam & Rachman-Moore, 2004; Farrell, Cobbin, & Farrell, 2002; Treviño, Weaver, Gibson, & Toffler, 1999). A few other studies have used publicly available data (such as legal violations and reputation indices) to assess the impact of BCEs (e.g., Mathews, 1987; Ryan, 1994; Schnatterly, 2003). To establish the perceptions and experiences of employees regarding the manner in which BCEs are communicated, their effect on employee behavior, and the way in which they are embedded by management, a large sample of the U.S. working population was collected for this study.

Questionnaires were sent to 3,075 preselected members of the U.S. working population. These individuals fill out questionnaires on a regular basis and were selected by the large database firm, National Family Opinion, to be representative of organizations that employ more than 200 employees. With a return of 2,390 completed questionnaires, a response rate of 77.7% was achieved. 57% were male and 43% were

female. The average age was 43.71 years. 25% of the respondents worked at corporate headquarters and 75% at another location. Regarding the hierarchical position of the respondents, 71.4% occupied a non-managerial position and 23.1% occupied a local management and 5.5% a senior management position. The job functions of the respondents were administrative (9.7%), corporate management (3.3%), education (6.5%), finance (6.6%), healthcare (12.8%), human resources (1.7%), manufacturing (5.5%), marketing (3.0%), operations (12.1%), research and development (3.0%), sales (9.0%), public relations (2.1%), quality (1.8%), and other (23.1%).

Dependent Variable

A 20-item scale measuring observed unethical behavior in the workplace was created, drawing on Akaah (1992), Kaptein (1998), Newstrom and Ruch (1975) and Treviño, Butterfield and McCabe (1998). Items were selected to cover a variety of behaviors, such as "Making false or misleading promises to customers", "Engaging in sexual harassment or creating a hostile work environment", "Offering improper gifts, favors or entertainment to influence others", and "Trading company shares based on 'insider' information". Following Treviño, Butterfield and McCabe (1998), observed behavior was measured instead of self-reported behavior to reduce social desirability bias. Moreover, as unethical behavior in the workplace is a low base-rate phenomenon, Brown and Treviño (2006) suggest using observed behavior instead of self-reported behavior as it generates more usable data. Following Treviño, Butterfield and McCabe (1998), a timeframe of 12 months was selected, formulated as follows: "In the past 12 months, I have personally seen or have first-hand knowledge of employees or managers…" and a five-point frequency scale with 1 (never), 2 (rarely), 3 (sometimes), 4 (of-

ten), and 5 (always) was used. To allow for sufficient variance in the behavioral scale, items were selected for the analysis with a standard deviation greater than .70. Five items were removed, leading to a final list of 15 items. The reliability of the scale (Cronbach alpha) was .914.

Independent Variables

With regard to dependent variables, no tested scales were available. Therefore new scales had to be created.

Existence of BCEs. Respondents were asked whether or not their organization had a BCE. Two other response alternatives were provided, namely "unsure" and "not applicable", which were considered as an absence of a BCE during the analyses (cf., Somers, 2001).

Frequency of communication regarding BCEs. Respondents were asked to indicate the frequency at which they learned about the BCE by means of the following formal communication activities: "Policies and procedures manuals", "Internal memos (including e-mail)", "Internal training sessions provided by the company", "Posters and bulletin boards", "Newsletters", "CD-ROM or Video", and "The company Intranet". The response scale ranged from 1 (never), 2 (rarely), 3 (sometimes) to 4 (often). Cases in which there was no BCE were, like all other independent variables that are discussed below, treated as missing values and were eliminated from the analyses because they are only applicable when a BCE exists. The reliability of the scale was .813.

Quality of communication of BCEs. Three questions measured the quality of communication of the BCE as perceived by the respondents. Information about the code is "provided or available to me when I need it" (accessibility), "clear and easy for me to

understand" (understandability) and "I learn from it" (usefulness). The response scale ranged from 1 (strongly disagree) to 5 (strongly agree) plus the option "not applicable", which was recoded for the regression analyses as "missing value". The reliability of the scale was .866.

Content of BCEs. Instead of the measure Donker, Poff and Zahir (2007) used for the content of BCEs, namely the number of values a BCE addresses, the focus in this study was on the number of issues BCEs address. The reason being that values are only one aspect of BCEs whilst the number of issues is widely used to evaluate the content of BCEs (e.g., Brooks, 1989; Cressey & Moore, 1984; Kaptein, 2004; Schlegelmilch & Houston, 1989; White & Montgomery, 1980). These studies were used to compile a list of issues BCEs may include. Twenty general issues were selected and included, such as "Antitrust (e.g., fair competition)", "Proper reporting of business and financial information to shareholders", "Conflict of interests" and "Environmental protection". Respondents were asked whether an issue was addressed in the BCE or not. Two other response alternatives were also provided, that is "unsure" and "not applicable", which were considered as the absence of the issue in the BCE in the analysis. The reliability of the scale was .916.

Embedment of the BCE in the organization by management. The scales for senior management and local management were operationalized into the same set of six items as discussed above: regarding the current BCE in the organization, managers "Set reasonable performance goals for me", "Are positive role models for the organization", "Know what type of behavior occurs in the organization", "Are approachable if I have questions or need to deliver bad news", "Would never authorize unethical or illegal conduct to meet business goals", and "Would respond appropriately if they became aware of improper conduct." Local management was defined as the relevant supervisor

and managers within the business unit of the respondent. The reliability of both scales, with a five-point Likert response scale ranging from 1 (strongly disagree) to 5 (strongly agree), was .901 and .915 respectively.

Control Variables

To account for variance in unethical behavior that might be explained by factors other than the independent variables above, the following control variables were first entered into the regression models (cf. Mayer et al., 2009; Treviño & Weaver, 2003): gender (0 = female; 1 = male), age, location of unit (0 = corporate headquarters, 1 = other location), and hierarchical position (0 = individual contributor (not supervising); 1 = supervisory; 2 = local management; 3 = middle management; 4 = executive/senior leader) of the respondent.

RESULTS

Table 1 reports the means, standard deviations, and intercorrelations of all variables. Of the control variables, only gender was positively related to observed unethical behavior. Women more frequently observed unethical behavior in the workplace than men. As expected, all independent variables were negatively related to observed unethical behavior. The more the BCE relevant factors were present, the less unethical behavior was observed. The existence of a BCE had the lowest significant correlation coefficient ($r = -.150$, $p < .01$) and embedment of a BCE in the organization by local management the highest ($r = -.523$, $p < .01$).

TABLE 1

Means, Standard Deviations, (Pearson) Correlations and Scale Reliabilities for Dependent and Independent Variables

Variables	*M*	*SD*	1	2	3	4	5	6	7	8	9	10a	10b
1. Observed unethical behavior (1-5)	1.40	.54	(.914)										
2. Age (18-80)	43.71	10.33	-.031										
3. Gender (0-1)	.57	.50	-.078**	-.060**									
4. Location (0-1)	.75	.43	.025	.048*	.016								
5. Position (0-4)	.53	.96	-.003	.034	-.140**	-.149**							
6. Existence of BCE (0-1)	.71	.45	-.150**	-.081**	-.073**	.002	-.064**						
7. Frequency of communication regarding BCE (1-4)	2.60	.70	-.167**	-.029	-.048*	-.005	-.047*	.185**	(.813)				
8. Quality of communication regarding BCE (1-5)	3.74	.97	-.388**	.029	-.062**	.016	-.060**	.330**	.466**	(.866)			
9. Content of BCE (1-2)	1.66	.27	-.300**	-.020	.003	.034	-.153**	.272**	.358**	.518**	(.916)		
10a. Embedding of BCE by senior management (1-5)	3.45	.93	-.466**	-.003	-.035	.087**	-.137**	.292**	.365**	.598**	.451**	(.901)	
10b. Embedding of BCE by local management (1-5)	3.77	.88	-.523**	-.002	-.046*	.079**	-.120**	.314**	.357**	.592**	.483**	.720**	(.915)

Note. Estimated reliability coefficients are presented in parentheses on the diagonal. N=2390.

* p < .05 ** p < .01

Table 2 reports the results of the hierarchical regression analyses conducted after successively entering the control variables and the independent variables. Gender was significantly related to unethical behavior in all models, whereas hierarchical position and age respectively were significant in two and three of the seven models.

TABLE 2

Results of Hierarchical Regression on Observed Unethical Behavior

	Observed Unethical Behavior						
Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Control variables							
Age	.030	.019	.015	.039*	.037	.040*	.038*
Gender	.075**	.062**	.054**	.046*	.051**	.043*	.042*
Location	.027	-.027	-.028	-.023	- .021	.011	.010
Position	.007	.007	.014	-.019	-.036	-.064**	-.055**
Independent variables							
Existence of BCE		-.142**	-.106**	-.014	.001	.051**	.049**
Frequency of formal communication regarding BCE			-.167**	-.003	.022	.056**	.054**
Quality of communication regarding BCE				-.391**	-.326**	-.097**	-.076**
Content of BCE					-.157**	-.055**	.041
Embedding of BCE by senior management						-.167**	-.184**
Embedding of BCE by local management						-.365**	-.312**
Two-way interactions							
Frequency formal communication x Quality formal communication							-.040
Frequency formal communication x Content of BCE							-.004
Frequency formal communication x Embedding of BCE by senior management							-.022
Frequency formal communication x Embedding of BCE by local management							.052
Quality formal communication x Content of BCE							.047
Quality formal communication x Embedding of BCE by senior management							-.005
Quality formal communication x Embedding of BCE by local management							-.005
Quality formal communication x Embedding of BCE by senior management							.041
Content of BCE x Embedding of BCE by local management							-.119**
Embedding of BCE by senior management x Embedding of BCE by local management							-.105**

R^2	.007	.027	.053	.163	.180	.312	.331
Adjusted R^2	.005	.024	.051	.160	.177	.309	.325
ΔR^2		.019	.027	.109	.017	.132	.016
df (regression, residual)	(4, 2190)	(5, 2189)	(6, 2188)	(7, 2187)	(8, 2186)	(10, 2184)	(20, 2174)
F	3.782**	12.014**	20.461**	60.873**	59.915**	98.960**	53.899**

Note. Standardized regressions coefficients (betas) are shown. Two-way interactions with existence of BCEs were not computed because all other independent variables where respondents indicated that their organization had no BCE, were treated as missing values and were eliminated from the analyses. Due to space constraints, the three-way (six new variables), four-way (four new variables) and five-way interactions (one new variable) are not shown.
* p < .05 ** p < .01

In Model 2, the existence of BCEs was negatively related to observed unethical behavior (β = -.142, p < .01). Adding the existence of BCEs to the control variables only increased the explanatory power of the model (= adjusted R^2) from .005 to .024. In Model 3 the frequency of communication activities regarding BCEs was also significantly related to observed unethical behavior. The relation was negative, implying that the more communication activities take place, the less unethical behavior is observed. The regression coefficient β was -.167 (p < .01). The explanatory power of the model slightly increased by .027 to R^2 = .051. In Model 4, adding the quality of communication activities increased the explanatory power substantially to .160 (ΔR^2 = .109). The regression coefficient was quite high and as expected negative (β = -.391, p < .01). Both the existence of BCEs and the frequency at which they are communicated lost their significance in this model.

Adding the content of BCEs in Model 5 slightly increased the explanatory power from .017 to .177, with β = -.157 (p < .01). When content was included directly after the control variables and the existence of BCEs, the explanatory power increased by .105, with β = -.355 (p < .01). Adding the embedment of BCEs in the organization by both senior and local management in Model 6 increased the explanatory power of the model by .132 to .309. Both regression coefficients were high and negative: for senior management β = -.167 and for local management β = -.365 (p < .01). In Model 6, all four BCE related factors that were added in the preceding models were significant. However, the existence of BCEs as well as the fre-

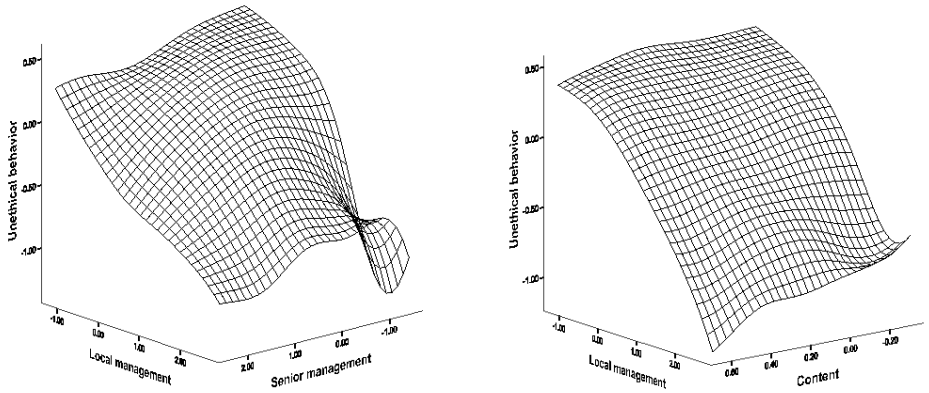
quency at which they are communicated were positively related to unethical behavior whereas the quality of the communication activities as well as the content of BCEs were negatively related to unethical behavior. The differences between the regression coefficients were significant, except between the existence of BCEs and the frequency at which they are communicated ($\Delta\beta = .005$).

In Model 7, which included all possible two-way interaction terms for the independent variables, accounted for a variance in unethical behavior of .331, thereby slightly increasing the explanatory value of the model by 1.6% ($\Delta R^2 = .016\%$). Two two-way interactions were significant: between the content of BCEs and embedment of BCEs by local management ($\beta = -.119$, $p < .01$) and between embedment of BCEs by senior and local management ($\beta = -.105$, $p < .01$). Figure 1 shows the graphs of both two-way interactions. Notable is that in the two-way interaction between senior and local management relatively little unethical behavior is perceived when local management actively embeds the code and senior management hardly embeds the code.

Adding higher order interactions in new models did not result in any significant other interactions ($p < .05$). So the five-way interaction term including all independent variables except the existence of BCEs was not significant. The increased explained variance of these three models was .001 each time.

FIGURE 1

Both significant two-ways interactions



Note. All variables are centered

Given the relatively high regression coefficients of embedment of BCEs by senior management and local management, the regression models for the lowest quartile of these two factors were computed to see to what extent they are conditional factors for BCEs to be effective at all. When one of the factors was low, the same other independent variables were significant as in Model 6 with also the same direction. There were however two exceptions. When embedment of BCEs by senior management was low, a significant positive interaction between senior management and content of BCEs could be discerned ($\beta = .385$, $p < .01$). And when embedment of BCEs by local management was low, the content of BCEs was insignificant in Model 6 (all independent variables included but without the two-way interaction terms). When embedment of BCEs by both senior management and local management was low, no other independent variable was significant.

DISCUSSION

This is the first study that has been conducted on the influence of BCEs on unethical behavior in the workplace taking into account their content, their communication and their embeddedness in the organization. The results yielded by examining a large sample of the U.S. working population shows that the mere existence of BCEs hardly explains the absence of unethical behavior. When no other independent variables were included (Model 2), BCEs were negatively related to unethical behavior, but the relation became insignificant in Model 4 and 5 and even positive in Model 6 and 7. The same holds true for the frequency of communication activities regarding BCEs, which was only negatively related to unethical behavior when included along with the existence of BCEs (Model 3) and unexpectedly positively related to unethical behavior in Model 6 and 7. Fortunately, some other factors were found to explain the effectiveness of BCEs. The content of BCEs, the quality of the communication activities regarding BCEs and the embedment of BCEs in the organization by senior and local management were all negatively related to unethical behavior. The more diverse the perceived content of BCEs, the better the perceived quality of the communication activities surrounding BCEs and the better the perceived embedment of BCEs by senior and local management, the less the perceived unethical behavior in the workplace. Finally, the interaction term with all independent variables was not related to unethical behavior. Only two two-way interactions were significant, i.e. between content of BCEs and embedment of BCEs in the organization by local management, and between embedment of BCEs in the organization by senior management and local management. The complete model of independent variables and their two-way interactions accounted for a variance in unethical behavior of 32.5%. As expected, the factor strongest related to unethical behavior was embedment of BCEs by management. Also as expected, the quality of communication of BCEs had a stronger relationship with unethical behavior than the content of BCEs, while the content of BCEs had a stronger relationship with unethical behavior than the mere existence of BCEs. However, it was not expected that the existence of BCEs and frequency at which they are communicated would be positively related

to unethical behavior. To conclude, all hypotheses can be supported, except Hypothesis 1, which concerns the mere existence of BCEs, and Hypothesis 2, which concerns the frequency of the communication activities surrounding BCEs and part of Hypothesis 7, which concerns the interaction between all independent variables.

BCEs are generally not regarded as a "panacea for companies" (Starr, 1983, p. 99) or "cure-all" (Graves, 1924, p. 59). Although this study did not find evidence to prove the contrary, evidence was found that BCEs substantially reduce the frequency of observed unethical behavior. The results showed that generally, the existence of a BCE is negatively related to unethical behavior. In companies with a BCE, employees observe less unethical behavior in the workplace than in companies without a BCE. However, BCEs are not the only variable to take into account to explain the frequency of unethical behavior. It only accounts for two percent of the variance in observed unethical behavior in the workplace. As Model 6 indicates, if not implemented well, a positive relationship can even be discerned between BCEs and unethical behavior.

The value of a BCE therefore lies not only in its existence, but in its content, the quality of its communication and its embedment in the organization by senior and local management. However, like the mere existence of BCEs, the frequency of communication activities regarding BCEs, operationalized as formal communication in this study, was positively related to unethical behavior in Model 6. The more communication there was, the more unethical behavior was observed. This finding corresponds with the study of Weaver, Treviño and Cochran (1999a) who found that the frequency of ethics communication activities more readily decoupled from ethics practice than any other ethics activity. In the present study the frequency of formal communication activities surrounding BCEs could also be classified as "the symbolic side of ethics activity" (Weaver et al., 1999b, p. 283). This also coincides with the results of the study of Adam and Rachman-Moore who concluded that formal methods of implementing BCEs "are important, but not sufficient" (2004, p. 240). In this study it was found

that it is not so much the frequency of communication activities that is significant, but its quality as perceived by its audience. It was also found that embedment of the code in the organization by senior and local management, which can be regarded as the informal communication of BCEs, is much more important in explaining unethical behavior in the workplace than the formal components such as the existence of BCEs, their content and the frequency of communication activities. Regarding the question of whether BCEs are "symbolic or substantive documents" (Stevens et al., 2005, p. 181), we can conclude that BCEs as such are no more than symbolic documents that have little bearing on observed unethical behavior. They become substantive documents as their content, communication and embeddedness are acknowledged by scholars who study the effectiveness of BCEs and attended to by managers who strive to have an effective BCE.

Research Implications and Limitations

The results of the study suggest that research into the effectiveness of BCEs requires the inclusion of multiple factors. As this study explores a largely unknown and inherently complex phenomenon, it has some limitations, which have implications for future research on assessing the effectiveness of BCEs. Four limitations and its implications will be discussed here.

Firstly, the manner in which the variables were operationalized calls for comment. The existence of BCEs was not established at company level, only the extent to which respondents were aware of a BCE was examined. As such, the BCE had to be communicated at least to some degree. It is however possible that a BCE is not communicated at all (Schwartz, 2004), which implies that the explanatory value of 2% that was found for BCEs is a maximum rather than a minimum. The research methodology that was followed also did not involve the analysis of the content of BCEs as such as it was operationalized as respondents' familiarity with

the content of the BCE in their organization. Familiarity, once again, presupposes a degree of communication. Future research could also examine the content of BCEs through, for example, desk research or by obtaining information from central officers, such as corporate compliance or ethics officers and relate this to respondents' familiarity with the code's content and the frequency of observed unethical behavior in the workplace. Such research would however require a completely different type of research methodology than used in the current study where the perceptions of members of the U.S. working population was measured and examined anonymously. Such research could objectively analyze not just the number of issues addressed in the codes, as was done in the present study, but also the manner in which it is formulated. The fact that, for example, the issue of gifts is addressed says little about its content: it could say anything from all gifts are allowed to all gifts are prohibited. In the present study, this problem was partly overcome by formulating the types of unethical behavior in the same open-ended way as the issues. For example, the item of unethical behavior regarding gifts was operationalized as 'offering improper gifts', thus relying on the moral awareness of the individual respondent to give content to the notion "improper". A further limitation of the operationalization of the content of BCEs is that only its scope was studied. Wording, tone, length and layout can also be relevant in examining the content of BCEs and its relationship with unethical behavior (Benson, 1989; Schwartz, 2007; Weaver, 1995). The same applies to the level of standards it articulates and whether the BCE is more values or rules based (Paine, 1994). Furthermore, the quality of the communication activities in general was examined. Future studies could assess the quality of each individual activity, making it more specific and precise. A limitation of our dependent variable is that, like the independent variables, it is perception based. Although it is not uncommon to measure perceptions of unethical behavior in academic research (see, f. e. Treviño & Weaver, 2003), other sources to assess the frequency of unethical behavior, such as reported violations, would contribute to gaining greater insight into the relationship between BCEs and unethical behavior.

Secondly, although this study included five factors to examine the impact of BCEs on unethical behavior, future research could include other relevant factors as well. The study focused on BCEs because it is usually regarded as the most important component of an ethics program. However, other components of an ethics program may also affect unethical behavior in the workplace, such as ethics officers, ethics hotlines, and ethics audits (Treviño & Weaver, 2003; Weaver, Treviño, & Cochran, 1999b). Future research could include these components and determine their relationship with BCEs and unethical behavior. Furthermore, the process of developing BCEs is important in creating support for it, improving awareness, and stimulating a sense of ownership (Behrman, 1988; Webley, 1988; Stead, Worrell, & Stead, 1990). Therefore, it could also be relevant to examine how BCEs were developed in order to establish how they affect unethical behavior.

Thirdly, given the research methodology of the study, we have to be cautious in inferring causal relationships. BCEs may be adopted and implemented in circumstances where companies are confronted with unethical behavior, thereby reversing the causal relationship. Although not very likely, it is also probable that observed unethical behavior influences the (partly) subjective independent variables, such as the embeddedness of the BCE in the organization by management. If unethical behavior does occur, employees may doubt the ability of management to detect and prevent unethical behavior. However, in the absence of unethical behavior, it is less easy to determine whether a BCE is really embedded. If unethical behavior occurs and is subsequently adequately addressed by management the perceived embeddedness of a BCE in the organization by management may improve. At the same time, many of the independent variables were operationalized into questions pertaining to more objective facts, like the existence of a BCE, the type of communication activities and the content of a BCE, rendering it less dependent on experience of unethical behavior or vulnerable to the usual problems of common source and common method (cf., Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). The use of a group of respondents that is trained and experienced in carefully

filling out questionnaires might also have helped to reduce the problem of common sources. Finally, one could argue that observed unethical behavior increases if BCEs are effective since employees are clearer about what is unethical and thus more attuned to such behavior in their workplace. This definitional effect could explain the positive relationships identified in Model 6 and 7 and therefore why BCEs and the frequency of their communication lead to an increase in perceived unethical behavior. However, with regard to the negative relationships identified in this study, this definitional effect would imply that the relationships with unethical behavior are even stronger than we have found. As such, it would not undermine the core message of this paper.

A fourth limitation concerns the multiple levels used in the study. A BCE is an instrument introduced at company level, although we operationalized it as the extent to which individual respondents at different hierarchical levels are aware of its existence. On the individual level we used variables measuring respondents' familiarity with the content of the BCE and their personal assessment of the quality of the communication activities regarding the BCE. On group level we used independent variables of the type and frequency of communication activities and the embeddedness of the BCE by senior and local management as well as the dependent variable of the frequency of unethical behavior. Furthermore, whereas the independent variables are related to the way in which respondents perceive the BCE and its implementation, the dependent variable is related to the observed behavior of others in the workplace. The assumption is that the manner in which the independent variable is perceived is identical for different members of the group, including those whose alleged unethical behavior is being observed. Although this is not necessary true, it is likely that it is the case. For example, communication activities regarding BCEs usually take place at group level and not individually (KPMG, 2008a). Also the supervisor and manager of the workgroup (team, department, unit) as well as hierarchical lines outside the workgroup are usually identical for the members of one workgroup. Therefore, we may assume that workgroup members whose un-

ethical behavior is being observed are working in the same code-environment as those who observed this behavior as long as the respondent and those whose behavior is assessed are part of the same working group, which was the case in the current study. For good reasons, the current study did not examine the frequency of unethical behavior of the respondents themselves. Future research, as suggested by Treviño, Weaver and Reynolds (2006), could attempt to establish the validity of self-reports regarding such sensitive information as unethical behavior.

Managerial Implications

Although a BCE is usually regarded as an essential component of ethics management, to have a BCE is just a first step. The results of the current study show that the mere existence of a BCE hardly explains observed unethical behavior in the workplace. However, the results do not imply that BCE should be abolished. On the contrary, they indicate that BCEs are effective when the first step is followed by more steps in the right direction.

The positive difference lies not in the frequency of formal communication activities regarding BCEs. This study found that the challenge is to develop communication activities regarding BCEs that are considered to be accessible, understandable and useful to their audience. The content of BCEs is also important in improving the effectiveness of BCEs. This study shows that the more issues BCEs address, the more they are negatively related to unethical behavior. The most important factor as included in the study is the way BCEs are embedded in the organization by management. It is crucial that senior management and local management are positive role models as regards the BCE, set reasonable performance targets for employees that promote compliance with the BCE, do not authorize violations of the BCE to meet business goals, are approachable if employees have questions about or report violations

of the BCE, are aware of the extent to which employees violate and comply with the BCE, and respond appropriately when they become aware of violations of the BCE.

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