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Codes of Ethics and Codes of Practice

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Introduction

Codes of ethics and codes of practice are found everywhere from nonprofit organizations, to professional and trade associations and to large multinationals (Wood & Rimmer, 2003). These have inspired worldwide an extensive body of research, mainly in business ethics literature. Most studies focus on American codes, but in the last two decades, a steady increase of literature on codes in other countries can be observed. In the course of history, a wide range of publicized scandals in government, business, social work agencies, universities, and other types of organizations have raised concerns about ethical behavior. The scandals each time have invoked a rise in popularity of codes, with the intention to visibly express corporate values and, as such, to guide the ethical behavior of employees, companies, or professions. The use of codes assists corporate and professional organizations in their ongoing relationship with society and helps them to balance their pursuit of autonomy and the public's demand for accountability (Frankel, 1989; Higgs-Kleyn & Kapelians, 1999). Modern organizations are allowed to pursue their mission and goals in return for accountability to shareholders/stakeholders and, in a lesser extent, to the wider public. The nonprofit sector generally is conceived of as a "do-good sector"; without civil society organizations, many important social issues would go unaddressed. Despite its better reputation with regard to its ethics, in recent years, this sector is found to be no different from the public and private sectors (Ethics Resource Center, 2008). In part, this might be explained by the observation that in confronting with resource scarcity and as they age, nonprofit organizations become more bureaucratic and tend to adopt practices and goals that follow the fashions of their institutional fields rather than the logical dictates

of their mission and core values (Rothschild & Milofsky, 2006, p. 138). Interestingly enough, this has not inspired a thread of research on codes of ethics and codes of practice from a civil society perspective.

Definition

Codes of ethics and codes of practice are often used as synonyms, referring to their shared purported purpose, i.e., to articulate behavioral standards valued by an organization (c.f. Canary & Jennings, 2008, p. 265). They also appear under a variety of other names, such as codes of conduct, business codes, integrity codes, codes of honor, voluntary agreements, guidelines, and recommendations (Kaptein, 2004; Kaptein & Schwartz, 2007). For the purposes of this entry code, definitions are derived from the Dictionary of Civil Society, Philanthropy and the Nonprofit Sector. A code of ethics is defined as

- ▶ a statement of principles established by an organization and used to influence the professional conduct of its staff and members. Such a code of ethics is typically developed by a professional body or trade association, monitored by that body, and enforced by it, especially in field for which little or no governmental regulation is in place. In general, members must adhere to these rules and regulations in order to remain in good standing with the organization. (Anheier & List, 2005, p. 57)

A code of practice is

- ▶ an agreement among members of a professional association, umbrella group, or a single organization, in which they agree to act in a certain way. Such codes are typically developed in professions or trades that are not regulated by a governmental institution. (Anheier & List, 2005, p. 58)

Some scholars distinguish a code of practice from a code of conduct. A code of conduct is defined as a practical document of standards governing client relationship, and a code of practice, as a technical document setting standards for the members of a profession. The definition of a code of practice used in this entry encompasses both types of documents.

Both definitions of Anheier and List refer to the involvement of a professional or trade association, which is typical of professional codes. It differentiates them from



corporate codes, which are issued by and for individual companies (Pater & Van Gils, 2003, p. 265). Corporate codes can be conceived of as one of the layers of a larger system consisting also of codes on a meso-level, i.e., professional, industrial, and national codes, and macro-codes, i.e., codes for business that are developed by international institutions (Kaptein & Wempe, 1998; Kaptein & Schwartz, 2007). The presented definitions mirror the main elements of an often referred to definition of Schwartz (2001, p. 248) who describes a corporate code as “a written, distinct, and formal document that consists of moral standards used to guide employee or corporate behaviour.” A particular type of codes are governance codes that generally include principles or practices regarding board composition, the transparency of the information provided by the company, and the business community and/or professional associations within the business community.

The definition of Schwartz draws attention to what a code consists of, to what or to whom it applies, and to its formal nature (cf. Pater & Van Gils, 2003, p. 764). Codes lay down standards – also referred to as a value system, aspirational ideals, guidelines, ethical principles, norms and beliefs, or ground rules – that help to understand what behaviors are morally acceptable or improper. They address employee behavior or an organization’s behavior and are laid out in a written, stand-alone and explicit document (Schwartz, 2004, p. 324). Though Schwartz’ definition typically is used to describe corporate codes, it bears a close comparison to professional codes (cf. Pater & Van Gils, 2003, p. 265).

The purported purpose of codes of ethics and codes of practice is to guide employee, corporate, or professional behavior. According to Wood and Rimmer (2003, p. 186) research focuses upon five aspects of the “content” of codes of ethics:

1. Moral content – what are the prescribed actions and values?
2. Procedural content – how are codes enforced and violations dealt with?
3. Public ownership – how is the code publicized and among which stakeholders?
4. Adaptation – is the code a living document updated to meet changing conditions?
5. Company specificity – is the code tailored to the needs and culture of the organization?

The stated principles and practices clarify to both insiders and outsiders what norms ought to govern behavior (see for categorizations of the various functions a code may perform, Schwartz, 2001, p. 255; Frankel, 1989, pp. 111–112). In addition to this, several scholars have

discussed the adoption of codes as a result of symbolic isomorphism (Long & Driscoll, 2008) or for reasons of personal interest, such as promotion of public image (Ethics Resource Center, 1990) or avoiding legal consequences (Carasco & Singh, 2003; Canary & Jennings, 2008; Boulding, 2000).

Historical Background

The distinction of professional codes and corporate codes is reflected in distinct bodies of research. Professional codes are of a much earlier date than corporate codes. Their prevalence and growth over time, however, is not very well recorded (Pater & Van Gils, 2003, p. 265). The first code of ethics addressed the professions of physicians and surgeons. It was proposed in a pamphlet published in 1794 by Thomas Percival of Manchester. Until then, professional ethics had nothing to do with formal codes; it was about character, honor and dishonor, virtue and vice (Baker, 1999). Percival drafted the code in response to a particular crisis arising from the mismatch between the personalized ethics of individual honor and the requirements for standardization inherent in a modern institution, the hospital. The proposed code of ethics replaced the language of oath and subjectivity with standards of conduct formulated in numbered duties, justified by the medical profession’s core collective responsibility to care for the sick. The code proposed by Percival was not an actual code of ethics, since writing such a code requires a statement of a sufficiently authoritative body, the profession itself (Davis, 1999). This occurred in 1808, when the Boston Medical Society adopted a code of ethics for its members. By 1847, the newly formed American Medical Association was the first national professional society to adopt such a code, and by the beginning of the twentieth century, codes had become the dominant form of professional ethics in the United States (Baker, 1999). The American Bar Association (ABA), for example, adopted its first code of professional ethics in 1908 and the accounting profession in 1907 (Backof & Martin, 1991, p. 101). By now, professional codes had become the dominant form of professional ethics.

The adoption of corporate codes of ethics is of more recent date. Though there is little record of the dates of early corporate codes of ethics, literature shows a steady growth of codes of ethics in many companies in the United States. Cressey and Moore (1983) discuss what they then considered to be a temporary movement in the mid-1970s, pointing at a fast growth by 1976 followed by a decline in 1979 in the collection of codes in the Watson Library of the Conference Board in New York. Codes of ethics enjoyed renewed popularity during the



late 1980s, as the Center for Business Ethics has shown. It conducted a survey in 1986, which found that of the 28% of respondents, 75% had corporate codes of ethics. Compared to the American trend the adoption of ethical codes in, for example, Europe, Canada, and Australia lags behind. By 1995, Berenbeim was reporting incidences of codes of ethics in over 84% of comparable US companies, 66% of Canadian, and 50% of European companies, and Wood, McClaren and Callaghan were quoting a rate of 33% for codes of ethics in Australia (Wood & Rimmer, 2003, p. 182). Based on recent studies conducted into the prevalence of codes in specific countries, Kaptein (2004) indicates that the percentages of large companies possessing codes rate from 78% in the United States, England, and India to 37% in Japan. His own study into the 200 hundred largest multinational firms in the world shows that 52.5% of them have a code.

Key Issues

Research on codes of ethics and codes of practice is directed at various knowledge interests representing distinct lines of inquiry. One topic area that has received a great deal of research attention concerns the content of codes, including both normative as well as empirical studies. The normative studies are concerned with guidelines for developing and implementing a code, while the empirical studies mainly have resulted in inventories or content analyses of existing codes. A second line of inquiry that has gained much attention, mostly from an empirical point of view, deals with the effects of a code on employee, organizational or professional behavior. A third line of inquiry, which is still in its infancy, takes an interest in what mechanisms an organization can or should have in place or what obstacles have to be overcome to ensure a code actually is coming into practice in the organization. Within these three lines of inquiry, the focus usually is on either corporate codes or codes developed by professional associations. Studies seldom address both types (see, e.g., Somers, 2001; Pater & Van Gils, 2003).

Helin and Sandström (2007) carried out a thorough and systematic review of empirical studies on corporate codes published from 1994 to mid-2005. They distinguish between content-oriented, output-oriented, and transformation-oriented studies, discussing the body of knowledge and main themes of each strand.

Content-oriented studies map and sometimes compare the content of codes in explicit countries. The general pattern in the content-oriented studies is that codes are similarly designed and basically carry the same message. Also, several of these studies argued that in spite of the intended purpose, the main motive is corporate

self-defense, protection, and window dressing. Comparative studies have shown that American, Canadian, and Australian share this inward orientation on the corporation (Lefebvre & Singh, 1996; Singh et al., 2005). These studies also revealed some differences. For instance, Australian codes rely less on internal and external watchdogs compared to American codes, which primarily is explained by the different business cultures in these countries (Wood, 2000). Codes of corporations operating on the international market also have gained research attention. The studies focus on the content of international codes (Preble & Hoffman, 1999), and more recently on codification of business ethics in codes of transnational or multinational corporations (Carasco & Singh, 2003; Kaptein, 2004).

The output-oriented studies reviewed by Helin and Sandström share a focus on (key factors that might explain) the effectiveness of codes in influencing actions toward “more ethical” behavior. The findings regarding the impact of codes point in different directions. Some studies, under different circumstances, identify a positive influence on perceptions and behavior of individuals or organizations (cf. Boo & Koh, 2001; Harrington, 1996; Kaptein & Wempe 1998; Kolk & Tulder, 2002), whereas others are inconclusive or contradict the acclaimed effect on behavior (Nwachukwu & Vitell, 1997; Farrell et al., 2002; Schwartz, 2001, 2004), suggest that codes play a mere symbolic role (Adams et al., 2001), constituting an important symbolic artifact (Stevens, 2004) or are used as window dressing (McKendall et al., 2002).

Transformation-oriented studies concentrate on the adoption of codes, discussing what organizations need to overcome when implementing a code. They draw attention to issues such as the code’s relevance and consistency (Kaptein & Wempe, 1998; Snell & Herndon, 2004), the coupling of a code to a development process with a broad consultation (Montoya & Richard, 1994; Snell & Herndon, 2004), and procedures of communication, education, maintenance, and reinforcement (Kaptein & Wempe, 1998; Montoya & Richard, 1994; Somers, 2001).

The key issues addressed by Helin and Sandström are consistent with findings of empirical research on professional codes (Somers, 2001, p. 185). But the typical involvement of a professional or trade association also adds new knowledge interests to this line of research. Scholars, for instance, have discussed the adherence to a profession’s or association’s code when its content conflicts with a corporation’s code (Higgs-Kleyn & Kapelians, 1999), or with the reality experienced by members of the profession (Frankel, 1989, p. 113). Other issues dealt with are the (lack of) mechanisms to ensure that



professional values are internalized (Somers, 2001, p. 194) and that infringements of professional codes are sanctioned (Bird, 1998). With regard to the latter, researchers raise particular concerns such as the reluctance of the profession's members to report violations of the code (Frankel, 1989, p. 113) and whether, how, and to what extent codes can and will be enforced by professional societies (Bird, 1998; cf. Donabedian, 1993, p. 91–92).

[Au1]

Future Directions

By the mid-1990s, most studies of codes of ethics and codes of practice suffered from a lack of information on how the codes were communicated in the organization and whether or not they were effective (Stevens, 1994). Helin and Sandström (2007) have shown that the knowledge gap has continued to exist in literature on corporate codes. A lot of studies still target the content of a code, often without explicit use of theory, but an equal or even greater interest is taken in the behavioral effects of a code. The latter predominantly focus on perceptions and behavior of managers or employees. From these studies it can be learned that there is still a great deal of uncertainty around whether codes are effective. Some studies have found that contextual factors inside or outside the corporation need to be taken into consideration, but little research has been conducted on why and how ethical codes become what they become over time. In order to develop the body of knowledge on codes, empirical research on different levels in the organizations is needed with sensitivity to how managers and employees translate the codes in practice. Moreover, targeting the knowledge gap seems to require a stronger explicit interest in theory and a greater reliance on qualitative research methods rather than data collection through surveys (Helin & Sandström, 2007, pp. 261–263).

[Au2]

The body of knowledge on professional codes has progressed in a similar vein. After an initial focus on the content and adoption of professional codes, recent literature shows a growing interest in behavioral and contextual issues associated with the codes. The knowledge gap observed by Helin and Sandström is mirrored too. More research on understanding the processes embedded in the context in which codes operate is considered highly desirable (Somers, 2001), and a lack of theory identifying how professional codes are associated with ethical behavior is observed (Pater & Van Gils, 2003, p. 765). Also, most studies have focused on either a single association, or relatively few associations. Replication of such studies in a different industry or sector is desirable to assess the generalization of the results. Empirical data on the effects of professional codes reveal that, generally, the

professional association is of limited value in regulating ethical behavior of professionals (Gunz et al., 2002; Somers, 2001). Based on previous research Pater and Van Gils (2003, p. 766) noted that professional codes are not likely to bring about positive effects, unless compliance with the professional codes is enforced by the organization in which professionals work. The value of an enforced professional code is to be found in its potential effects on the ethical climate rather than in its direct effects, since professional associations are not involved enough in the daily activities of member organizations to affect their ethical behavior (2003, p. 270). An interesting avenue for further research therefore would be to investigate the effects of various modes and methods of enforcement. Furthermore, it would be interesting to explore other ways in which professional or trade associations (can) contribute to ethical behavior, for example, by training members in dealing with ethical and professional issues or by establishing knowledge centers that collect and disseminate information about mechanisms that effectively ensure ethical behavior in professional organizations (Pater & Van Gils, 2003: 770).

A third topic for further research stems from the definitions of a code of ethics and a code of practice this entry started with. The relationship between codes as a device for self-regulation (Schwartz, 2001) and governmental regulation addressed in these definitions has been understudied in literature on corporate and professional codes. Insights into this relationship is desirable, since in the last two decades new modes of regulation have been introduced that take the form of rule making by private organizations encouraged or on behalf of government authorities. To name just a few examples: coerced self-regulation (Black, 1996), mandated self-regulation (Rees, 1988), sponsored self-regulation (Huysse & Parmentier, 1990). Codes of ethics and codes of practice are considered as one particular form these new modes can take on (cf. Irvin, 2005). Since these new modes of regulation stimulate or enforce corporate and professional organizations to regulate themselves on behalf of public interests, this raises new research questions. For instance: How are codes processed when public interests differ from professional or corporate interests? And what parties should be involved in the development, monitoring, and enforcing of the codes?

[Au3]

A final knowledge gap particularly pertains to the field of civil society studies. So far, the issues discussed in this entry did not call for a distinction between corporate and professional organizations in for-profit and nonprofit sector. However, a difference may be perceived when it comes to the substantive values and ethics, i.e., the



objectives nonprofit organizations want to realize that are not being achieved through profit seeking or governmental organizations. Nonprofit organizations “are the organizational expression of their members’ ethical stance toward the world: nonprofit organizations, by way of their very existence and practices, convey a public statement of what their members see as a better, more caring, or more just world” (Rothschild & Milofsky, 2006, p. 137). The substantive values and ethics, however, are understudied and often overlooked in the research on nonprofit organizations (Rothschild & Milofsky, 2006, p. 139). An investigation of the prevalence and content of codes of ethics and codes of practice could provide more insight into these values and ethics. This in turn may help the nonprofit sector to meet the growing demand for accountability, while holding on to its pursuit for autonomy. Externally imposed accountability systems may suppress the mission-driven natures of nonprofit organizations (Ethics Resource Center, 2008, p. 25; cf. Rothschild & Milofsky, 2006, p. 139; cf. Sidel, 2005, p. 804), harming the premise of the nonprofit sector.

Au4

Cross-References

- ▶ Accountability
- ▶ Corporate social responsibility
- ▶ Good governance
- ▶ Governance, organizational
- ▶ Nonprofit management
- ▶ Self-organization
- ▶ Social trust

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