A LONGITUDINAL STUDY OF THE COMMITMENT TO BUSINESS ETHICS OF CORPORATE AUSTRALIA: 1995-2005

Mr Michael Callaghan
Bowater School of Management and Marketing, Deakin University, Warrnambool, Australia
Email: mbc@deakin.edu.au

Associate Professor Greg Wood
Bowater School of Management and Marketing, Deakin University, Warrnambool, Australia
Email: gwood@deakin.edu.au

Professor Göran Svensson
Oslo School of Management, Oslo, Norway
Email: goran.svensson@set.hh.se
A LONGITUDINAL STUDY OF THE COMMITMENT TO BUSINESS ETHICS OF CORPORATE AUSTRALIA: 1995-2005

ABSTRACT

This paper compares the results of a longitudinal study of ten years, conducted at five yearly intervals, from 1995 to 2005. The aim of the study was to examine the commitment to business ethics of the top 500 Australian companies.

Primary data was obtained via a self-administered mail questionnaire distributed to a census of the top 500 Australian companies. This paper examines those responses that indicated that their company possessed a code of ethics.

The paper finds that business ethics has continued to evolve and that, in most cases, such evolution has been positive. It would seem that codes of ethics have moved beyond a regulatory requirement and are now considered an integral component of corporate culture and commercial practice.

*Keywords: Ethics, Codes, Commitment, Longitudinal, Evolution, Australia*

INTRODUCTION

Business ethics was not a major consideration of Australian based businesses until the latter part of the 1980s and early 1990s (Kaye, 1992; 1996). The catalyst for this increase in interest was the stock market crash of 1987. The revelations of impropriety that surfaced as the result of corporate collapses and the fall from grace of high profile entrepreneurs brought ethical practices into sharp focus for investors, the community in general and the government (Milton-Smith, 1995; Small, 1993). Names like Skase, Bond, Connell, Herscu went from being famous to infamous, as their deeds impacted so heavily and negatively upon the Australian community: companies went bankrupt and investors lost their life savings.

When this study commenced in 1995, the collapses of Ansett, HIH, and One.Tel were still over five years away, however over the course of this survey these aforementioned corporate collapses once again brought into stark reality and focus the issues that were prevalent and relevant in the late 1980s. The sentencing just recently of Brad Cooper to over 8 years in gaol is the latest public episode of the scandal that was HIH whilst the James Hardie asbestos payout saga still plays out with regular
monotony in our news media. One has to ask has business ethics evolved to a higher level over the past 10 years, or are we still suffering from the same vagaries that plagued business in the late 1980s and early 1990s? Hopefully, this paper will go some way to answering this question.

The aim of this study was to examine the extent to which Australia’s top 500 companies operating in the private sector appeared to be committed to the concept of business ethics, not just in 1995 when the study commenced, but to see if the interest of that time was maintained over an extended period of time: at five year intervals. Interest can be heightened after a major event, but as time fades and the original event pales into one’s memory, then often vigilance and commitment can tend to wane as other more pressing and apparently more urgent and current matters come to the forefront of the corporate psyche. In order to focus empirical investigation on commitments to business ethics, it was decided to direct attention to the company’s code of ethics and the way that the code was supported by the organisation, both internally and externally. This paper focuses upon the organisational artefacts in place to support the ethos of the code of ethics.

The concept of ‘commitment’ to business ethics is central to this research. It is not, however, a simple idea that can be translated into a solitary quantitative measure, rather, it is a complex idea that can be approached from a number of different directions. Commitment can be signified at a threshold level by having a code of ethics, but having a code is surely not enough. It is an important first step, but in isolation it cannot be realistically expected that it will change employee behaviour or of itself craft an ethical corporate culture (Stajkovic and Luthans, 1997; Wood and Rimmer, 2003; von der Embse and Desai, 2004; McNutt and Batho, 2005).

Commitment was looked at in terms of the following issues:

- Inputs (the commitment of time and resources in developing, implementing and communicating the code)
- Objectives (the role the code plays in terms of prescribing ethical behaviour for internal and external publics, and governments or regulators)
• Outputs (the perceived benefits which flow from the code).

Five areas of questioning were asked. The intent of these questions was as follows. First, how common are codes of ethics? Second, who was involved in the development of these codes? Third, how are they implemented? Fourth, do companies inform external publics of the codes? Fifth, what are the prescribed benefits of codes?

METHODOLOGY AND RESPONSE RATES

In order to evaluate the use of codes of ethics a three-stage research procedure was used and conducted across 1995 and 1996. The process was replicated in 2000 and 2001 and then replicated again over 2005 and 2006. First, a questionnaire was sent to the public relations managers all of the top 500 Australian companies (based on revenue) operating in the private sector: firms which, for several reasons such as size of turnover, employee numbers, business profile and the like, are more probable to have developed a formal ethics code. Companies were asked to answer up to 30 questions and to supply a copy of their code of ethics. The second stage involved the content analysis of codes of ethics supplied by survey respondents. The third stage involved a more detailed follow-up of a small group of firms that appeared to be close to best practice. Findings for Stage 1 of the research (the survey of 30 questions) for 1995, 2001, and 2005 are reported in this paper.

In 1995, a response rate in Stage 1 of 68% (340 companies) was achieved with this survey, with 53% (265 companies) returning a completed questionnaire. In 2001, the response rate in Stage 1 was 34.6% (173 companies) with 22.2% (111 companies) returning a completed questionnaire. The response rate declined further in 2005 with a total response rate of 22.2%, of which 17% (85 companies) returned a completed questionnaire. This reduction in response rate, it could be suggested, may well be as a result of ‘list fatigue’ being suffered by these large companies. By ‘list fatigue’ we mean that these companies are constantly being approached by a raft of researchers to be participants in surveys. This saturation of inquiry has produced less of an inclination to participate in such research endeavours.
The respondents upon which this paper focuses comprise those with a code. In 1995, this was 121 respondents, 2001, 81 respondents, and 76 respondents in 2005. For ease of the presentation of results, the 1995, 2001, and 2005 figures will be shown in the following format for all data sets: (1995:2001:2005).

THE INCIDENCE OF CODES

Question 1 is focussed on the frequency of code usage amongst large private sector firms. The primary evidence in 1995 indicated moderate usage with a large minority of survey respondents (45.7% or 121 of 265) indicating their company possessed a code. A substantial increase was noted in 2001 (73% or 81 of 111), and again a smaller increase in 2005 with 89% (76 of 85) of respondents indicating their company possessed a code.

As would be expected over the 10 year course of this study, the business nature of respondents has varied. The major areas of change from the 1995 to the 2001 survey were reductions in Manufacturing (28.5%:18.5%) and Finance and Insurance (23.1%:14.8%). The 2005 study has shown a marginal increase in Manufacturing over 2001 (19.7%), but more curiously there is a marked increase in Finance & Insurance (21.1%) over the period. This would be consistent with an increased awareness of the need for ethical behaviour in this industry in the wake of the HIH insurance failure and the 2004, $360 million dollar loss, by National Australia Bank due to unauthorised foreign exchange options trading. Legislative changes, at both State and Federal level, would also be a primary cause of increased interest within this industry. The increase in Electricity, Gas & Water Supply (1.7%:11.1%) over the 1995/2001 period, most likely was due to the privatisation of government interests in this industry. The 2001 study found an increase in a number of businesses that were not represented in the 1995 study. These areas were traditionally government owned or related, such as Education, Government Administration and Defence, Health and Community Services, and other service based industries. Whilst some of these are notably absent from the 2005 results (Cultural & Recreational, and Personal and Other Services), the continued presence of government related industries is almost
certainly indicative of continued government policies directed toward privatisation and ‘user pays’ based service policies that have led to the inclusion of these organisations in the Top 500 companies, based on revenue. The profile of respondent businesses over the period of the study appears to indicate that the private sector has changed so that more service oriented organisations and/or government related organisations are large enough to attract recognition in the top 500 companies and/or these issues surrounding business ethics are perceived as more relevant to them today than may have been the case in 1995.

In all of the three survey periods, large firms (measured by financial turnover and employee numbers) were more likely to have codes than smaller ones, with the exception of firms falling into the highest category of $5 Billion and above, where there has been a general decline over the period of the study (14.9%;12.3%;9.2%). While the overall incidence of codes appears to be high and growing, it should be noted that the results can not absolutely demonstrate their incidence for the entire population of the top 500 firms over the period. Response bias is likely to be present causing incidence amongst respondents (45.7%;73%;89%) to be higher than the incidence in the population. Ten years on from Berenbeim’s (1995) USA study finding that over 84% of comparable US companies had codes of ethics, the incidence of codes in the Australian population (of 500) revealed by the 2005 survey (89%) suggests that perhaps we may now be at a similar level of the incidence of codes as was the case in America in 1995.

**IN VolvEMENT IN DEVELOPING THE CODES**

The survey data demonstrates that the development of ethical codes in Australian firms tends to be the prerogative of senior managers (87.9%;89.3%;83.3%), CEOs (80.5%;83.9%;79.2%) and the Board of Directors (56.3%;62.5%;72%). It is interesting to see that Boards of Directors are having a much greater involvement in both absolute terms and in relevant terms than they were in the previous two surveys. The introduction in 2002 by the Australian Stock Exchange of their ‘Principles of Good Corporate Governance and Best Practice Recommendations’ and the resultant focus on Corporate
Governance may go some way to explaining this increase in the incidence of codes of ethics in companies operating in Australia. In all three measures, over the ten year period, lower level managers, employees and stakeholders are rarely consulted, with the exception that in 2001 there appeared to be a period of consultation with staff resulting in a peak of their involvement in the development process (26%:43%:29%). The involvement by senior staff in establishing the code is still undeniable.

The obvious downside of the lack of staff involvement is that a code imposed from above by senior management may be less influential upon lower level managers who may perceive the code as not of their creation. If the staff of organisations do not feel an ownership in respect to the code, they may not accept it as readily as if they were a part of its development (Wood, 2002). Similarly, the low participation of external stakeholders in the preparation of the code (9%:0%:13%) may also reduce its influence upon them. To the extent that code effectiveness depends upon moral persuasion rather than coercive enforcement, a drafting process left in the hands of a few senior managers represents a continuing lost opportunity by organisations to win employee consent.

IMPLEMENTING CODES

The implementation of codes can occur in two ways - first the adaption of existing processes and second the creation of special processes. Reliance on the former is most likely fundamental to any real commitment to a code, however, ‘high’ commitment is most clearly signalled by the second (Wood and Rimmer, 2003).

The adaption of existing processes can relate to communication with employees, induction, discipline, staff appraisal, and strategic planning. Effectively all firms with codes now communicate them to employees (95%:99%:100%), use them in induction (92.6%:96.3%:97.3%), and associate them with disciplinary measures (83.4%:85.2%:91%). More than two thirds also use them in performance appraisal (69.4%:67.9%:75%), but consistently less than half use them in strategic planning
This last figure is of interest. If a company does not consider its code in its strategic planning processes then how does it ensure that its strategic plan is not at odds with its espoused ethical principles?

When one investigates the special measures to support the inculcation of ethical values at the organisational level there appears to be some shortfall. In particular, there appears to be a failure to use ethical codes and the supporting measures available to companies to model corporate culture. The supporting measures of ethics committees (25.6%:25.9%:42%), ethics training committees (14.9%:18.5%:23.7%), ethics training (33%:43.2%:51.3%), ombudsman (19.8%:30.9%:30.3%), and ethical audit (38%:22.2%:46%) appear either in only a small number of companies who possess codes or at best in just over half of the companies. It should be noted that in most areas the significance of these measures is growing as they appear to be given greater recognition by corporate Australia. The clear exception to this situation is in relation to the procedures to protect whistleblowers (25.6%:42%:82.9%). One could speculate that this marked increase is most probably due to the legislative requirements of various National and State based Whistleblower Protection Acts and most notably in relation to the timing of this study as it was in proximity to the July 2004 amendments to the Corporations Act 2001.

The measures, that should be implemented to ensure that there is a link between code implementation and review of employee and company performance, are not activated as they could and should be (Fraedrich, 1992; Gellerman, 1989; Laczniak and Murphy, 1991; Sims, 1991; Stoner, 1989; Weaver, Trevino and Cochran, 1999; Wood, 2000; Wood, 2002). Without support for employee education (Center for Business Ethics, 1986; Harrington, 1991; Maclagan, 1992; McDonald and Zepp, 1989; McDonald and Zepp, 1990; Murphy, 1988; Sims, 1992; Weber, 1981) or the protection of whistleblowers (Grace and Cohen, 1998) then expectations of ethical behaviour may be unrealisable (Dean, 1992; Harrington, 1991; Maclagan, 1992; Murphy, 1988; Sims, 1991). In general in 1995, it seemed that the introductory measures for codes of ethics appeared to be satisfactory and for most criteria these measures have strengthened over the past ten years. Follow up education and
implementation appeared to reduce from 1995 to 2001, but has now rebounded with 46% of companies that responded in 2005 indicating that they conduct ethical audits. Other than the legislative implications for whistleblowers, realistically the data indicates that the situation has only marginally improved over the course of this study.

In 2005, it would appear that organisations still do not have in place the support mechanisms to assist staff to comply with the expectations of the organisation’s ethical perspective. All employees need to be supported by the organisation to fulfil the organisation’s expectations in a range of areas relevant to the business and ethical behaviour is no different in this respect to other activities of the company. Many companies in Australia have instituted ethical behaviour initiatives and have put in place ways to monitor the performance of staff in these areas yet they have missed, it would appear, the linking part of the process between implementation and examination. That missing link is exposure and education and support to assist staff to perform in this area.

COMMUNICATING CODES

Section 4 asked whether companies inform stakeholders of both the existence of a code and also of its content. Is the code a document that is shared with stakeholders outside of the company? (Benson, 1989; Fraedrich, 1992). There was an interest in discovering whether companies perceived that having an ethical commitment has assisted profitability. The link with stakeholders is that, it is the marketplace that impacts on profitability. It has been noted already that communication with employees is almost universal. More problematic is communication with external stakeholders, especially customers and suppliers.

In 1995, the dissemination of codes was handled differently by companies when dealing with suppliers as compared to when they were dealing with customers. Customers, when informed of codes, were briefed in an informal manner (44.6%), however, when a code was discussed with suppliers it was more likely to be introduced in a formal manner (58%). It was suggested at that time
that this might have been because of some difference in the power relationships with suppliers and customers. Organisations have power over suppliers from whom they may withdraw business if performance is not satisfactory, however, in their relationship with customers, power usually lies with the customer. Organisations may have been reticent to reveal a code because of the fear that customers may have used a perceived disparity between the code and actual practice to criticise the organisation.

In 2001 the rationale espoused above appeared no longer applicable. This has again been confirmed by the 2005 study. As stated, in 1995, depending on the audience (customers or suppliers), there was a marked change in the approach to communicating the company’s ethics code, whereas in 2001 and 2005 the approaches are extremely similar. Customers are now informed of the company’s code of ethics at the same levels as suppliers (approximately 40% in 2001 and 50% in 2005). This change could be because of a belief in companies that customers may appreciate disclosure and therefore to have a code may be a competitive marketing advantage, however, many of the companies who believe that they communicate their codes do not distribute their codes formally. How then do customers and suppliers know that such a document exists? One clue, as to the answer to this question, may lie in the use of the Internet as a means of communication with customers and with suppliers, with 12% of companies now indicating they use this form to communicate their code to suppliers and 26% indicating that they use it as their method of code communication with customers. Prior to the 2005 study, the use of the Internet by companies in this way had not been mentioned by respondents.

PERCEIVED BENEFITS

The link between profit and being ethical has perplexed researchers for many years. It is a debate about which it is difficult to be definitive because there are so many variables and uncertainties. Yet, it is a question that needs to be asked, in order to view the concept from the perspective of the companies surveyed.
When asked whether a code of ethics has any perceived benefit there was a range of responses. These responses were classified as altruistic, mercenary, regulatory and/or residual. The mercenary and regulatory motives are closely linked, with both centred upon improving, either directly or indirectly, aspects of financial performance. In respect to being profitable, 58.7% of firms in 1995 said that having a code was profitable for them. In 2001, this figure jumped to 92.6% but dropped to 65.7% in 2005. At face value the 2001 peak might be dismissed as a curious anomaly, but when put into context, given the number of high profile corporate failures during this period, due largely to poor ethical conduct, it is understandable that, at the time, respondents may have been more inclined to indicate that ethical behaviour impacted positively on profits than those companies surveyed in both 1995 and 2005. Another possible explanation for the reduction in response rates from 2001 to 2005 may lie in an awakening to the realisation that one should be ethical because it is the correct course of action to take rather than only take it because one’s profit appears to improve. We may be seeing the awakening in Australia of a collective corporate conscience that recognises the worth of business ethics for its own intrinsic value, rather than just seeing business ethics as a monetary initiative.

Is profit seen as a major outcome of being ethical in the marketplace? This idea in itself raises some interesting speculation that is probably no more than conjecture, but needs to be voiced. Are corporations still being driven to be ethical by the mercenary consideration of profit generation? Or are corporations just acknowledging the obvious flow on effect that being ethical leads to enhancing profit, but they are not viewing this as a mercenary perspective, just one of inevitability and reality? Is being ethical seen by organisations as a tool of competitive advantage? Is the adage ‘good ethics is good business’ finally being recognised as a truism by many organisations? If the latter is so, then what are the motives that companies are now using to pursue this goal? There is more research work to be done in this area. Such work is currently outside of the scope of this study.

In practice, this research discovered ‘mixed motives’ encompassing both financial benefits and altruistic reward. Whether this recognition is a positive or negative consequence for business in Australia and the society as whole requires a more in-depth investigation of the motives that underpin
such philosophical beliefs. One can only but hope that such recognition is based more on altruistic motives than mercenary ones. It seems that respondents in the first two iterations of the survey tended to not distinguish ‘what is good’ from ‘what is good for business’, seeing the relationship of the two as not being problematic, however perhaps in 2005 there are emerging signs that these perceptions may be changing somewhat.

In general, it would appear that companies do view their code as an effective document that seems to be assisting the organisation in its business practices. In 1995, 73.3% or nearly 3/4 of companies viewed their code as ‘Positive’ or better. In 2001, this figure had moved to 85.2% and was a comparable 82% in 2005. This general improvement on the 1995 view of the effectiveness of the code is a positive point. If companies see the code being of benefit, then perhaps they will take a more determined and proprietary interest in ensuring that the support mechanisms are in place to enhance better code utilisation.

CONCLUSION

Within corporate Australia, business ethics continues to evolve. It does appear that this evolutionary process is continuing to be seen as a positive force in the way that organisations feel that they need to conduct business in this country. The process of introduction and change varies from industry to industry and organisation to organisation, yet the results of this study, tend one to conclude that many companies are addressing the issues inherent in ethical practice and that, in most cases, there have been positive changes since the Stage 1 survey of 1995.

Evidence is now available to show that codes of ethics are well developed in many of Australia’s largest corporations: organisations that from their responses see a diverse range of benefits in developing the area of business ethics. More companies are beginning to implement not only a code of ethics, but other complementary initiatives that reinforce the need for the culture of the organisation to be more ethical than it has been until recently. Codes of ethics are perceived by organisations to have
assisted them in their dealings in the marketplace and many companies use their ethical values to underpin their strategic planning process. Business ethics is now seen by many companies as a cornerstone of their commercial practices and there appears to be commitment to them by many organisations in corporate Australia.

There are still concerns with the lack of use of the range of support measures that one could invoke to inculcate the ethos of the code into the organisation. There is still an obvious lack of staff training, ethics committees, ombudsman and ethical audits, but there is a marked increase in whistleblowing procedures. This increase, in and of itself, raises the spectre of the effectiveness of legislation to impact upon and influence corporate behaviour. The answer to this situation is outside of the scope of this study, but it does make one ponder upon the issue of the effectiveness of government regulation and legislation as opposed to a laissez faire approach. Whilst corporate Australia is making progress in many areas of this measure of commitment, in this area, it has been basically stalled since 1995. It is not enough to have the artefacts of an ethical culture, such as codes, without ensuring that all employees are assisted to understand what is required. This organisation-staff relationship should be one of cooperation towards a mutual goal and not be one that may appear to be arranged as window dressing for the external stakeholders of the organisation.

Many companies appear to be genuine in their application of business ethics and their commitment to elements of it. Very real progress has been made since the late 1980s in Australia, in respect to the recognition of the place of ethics in Australian business (Kaye, 1996). Whilst in 2005, one can say that many companies have perceived a real need for ethical behaviour and are trying to use their code as a blueprint or guide for company activity, just as was the situation in 1995 and in 2001, the progress in some areas has not been of sufficient magnitude to imbue the researchers with confidence that the process will continue to develop as it could and should.
REFERENCES


Harrington, SJ (1991) ‘What corporate America is teaching about ethics’ Academy of Management Executive v5 no1 pp 21-30


Von der Embse, TJ and Desai, MS (2004) ‘How well are corporate ethics codes and policies applied in the trenches? Key factors and conditions’ Information, Management and Computer Security v12 no 10 pp 146-153


