

Firms address corporate scandal with lengthy codes of ethics, study shows

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Corporate scandals have been on the rise for the past decade.

In 2019, Strategy& (the strategy consulting business unit of

PricewaterhouseCoopers) found that for the first time in the history of its annual survey, more CEOs were dismissed for [ethical concerns](#) than for poor firm performance or internal board struggles.

There has been no shortage of highly publicized scandals, including the BP oil spill in 2010, the Target data breach in 2013 and abuses of financial incentives at Wells Fargo in 2016. A number of CEOs have resigned following alleged inappropriate relations, including Brian Krzanich at Intel, Leslie Moonves at CBS, Steve Easterbrook at McDonald's and Mark Hurd at Hewlett-Packard.

These, along with the emergence of the #MeToo movement and environmental, social and corporate governance mandates, have led to increased scrutiny of corporations' ethics culture.

New research from the University of Notre Dame examines how firms are addressing the problem through the language in their public ethics documents. The study reveals the emergence of a new age of increasingly moral—or at least moralized—corporate governance.

[The study](#), titled "How Have Corporate Codes of Ethics Responded to an Era of Increased Scrutiny?" is forthcoming in the *Journal of Business Ethics*, from James Otteson, the John T. Ryan Jr. Professor of Business Ethics; Timothy Loughran, the C.R. Smith Professor of Finance; and Bill McDonald, professor emeritus of finance at Notre Dame's Mendoza College of Business.

The team examined 350 S&P 500 firms, comparing their codes of ethics in 2008 versus 2019. The newer versions were much wordier, with notable changes in language.

Immediately following the 2008-09 recession, codes of ethics for the vast majority of firms started getting much longer. The 2019 averages

showed a 29% increase—1,760 more words than in 2008.

"The term sustainability saw a huge increase in frequency, along with words like slavery, trafficking, bribery, corruption and bullying," Otteson said. "We also saw many new appearances of words like transparent, cybersecurity and transgender. Before the #MeToo movement, 'speak up' was basically absent, then suddenly it began appearing everywhere, including in every [code](#) of ethics."

The study also looked into motivations behind the dramatic changes, and Otteson suspects one is for protection against future accusations.

"Clearly, the companies spent a lot of time carefully figuring out what to include," he said. "But consumers and employees don't want a document only. They want the companies to reflect a genuine moral commitment and to implement those values."

Firms ranked highly on global indices for ethical companies tended to have lengthier codes of ethics. But is anybody reading them? Otteson worries they could prove counterproductive.

"We seem to be witnessing changing moral sensibilities," he said, "though it also raises the philosophical question of what is the real purpose of a code of ethics? There's not a lot of evidence they are having a positive effect. Maybe they will over time, but it might be that a shorter code of ethics with some aspirational principles, rather than just a long laundry list of things, might actually be more conducive to the kind of culture you want in a company."

More information: Tim Loughran et al, How Have Corporate Codes of Ethics Responded to an Era of Increased Scrutiny?, *SSRN Electronic Journal* (2021). [DOI: 10.2139/ssrn.3887743](https://doi.org/10.2139/ssrn.3887743)

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