The institutionalization of Ethics in Corporate Governance: Efficiency or Legitimacy?

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Bio and background:

- Ph D. Dauphine University (1997)
- Professor at the uB since 2005
- Dean of IAE Dijon (2007-2011)
- Now Head of LEG (Laboratoire d’Economie et Gestion)
- Field of interest…
Interest in business ethics increased dramatically, in the US then in Europe, both within major corporations and within academia.

Ethical formalization: Why, how and for what purpose?
Outline

1 -- What is Ethics?

2 -- Origins and objectives of ethical policies in corporations

3 - Analysis of ethical formalization
1 – What is Ethics?

- Branch of philosophy which, for many centuries, has been attempting to serve as a guide for the conduct of man in society
- Oscillation between reflection about notion of Good and enunciation of normative rules...
What is Ethics?

✔ Practices and behaviours that are good or bad
What is Ethics?

- Overlapping concepts: Ethics, CSR (Corporate Social Responsibility), Sustainable Development...
- Growing social demand for greater integration of ethics
Corporate Governance?

- Mechanisms that define and delimit the discretionary purview of CEOs
- Narrow view vs. BROAD VIEW
2 - Why do Major Corporations adopt Ethics Policies?

- Most dominant and powerful institutions on earth
- Combination of many factors:
  - Technological evolution that increasingly impeded the precise control of effort and honesty of employees
  - Rapid globalisation of economic activity (regulation by national laws is increasingly difficult)
  - Growing sensitivity of corporations to their brand image; integrity as a strategic resource
Dual Objective:

✓ Tool for protecting the interests of corporate management, for managing risks of conflict with stakeholders

✓ Tool for internal regulation and to standardise the organisational culture, or to limit the discretionary behaviour of the employees
3. Analysis of ethical formalization

Ethics Policy Formalized by the CEO
(Values, Principles, Rules of conduct)

Ethics Committee

HR Department
- Training for employees,
- Appraisal System,
- Open-Door Policy,
- Ethics Audit,

CSR Department
- Measurement of Global Performance,
- Corporate Credo
- Stakeholders report,
- Stakeholder Management,

Legal Department
- Compliance Management:
  - Code of ethics,
  - Signature,
  - Whistleblowing
  - Ethics Officers,

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## Comparison of ethical documents

<table>
<thead>
<tr>
<th></th>
<th>Values</th>
<th>Principles</th>
<th>Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Elaboration</strong></td>
<td>CEOs</td>
<td>CEOs</td>
<td>CEOs (low consultation)</td>
</tr>
<tr>
<td><strong>Content</strong></td>
<td>Values</td>
<td>Responsibilities to Stakeholders</td>
<td>Responsibilities of employees</td>
</tr>
<tr>
<td><strong>Recipients</strong></td>
<td>Employees &amp; Stakeholders</td>
<td>Employees &amp; Stakeholders</td>
<td>Employees</td>
</tr>
<tr>
<td><strong>Objectives</strong></td>
<td>Homogeneous culture, legitimacy</td>
<td>Social legitimacy</td>
<td>To protect reputation, to avoid conflicts</td>
</tr>
<tr>
<td><strong>Scope</strong></td>
<td>Very Wide</td>
<td>Wide</td>
<td>Practical, binding</td>
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</tbody>
</table>

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3. Analysis of ethical formalization

- Tool to serve Efficiency? see Organizational Architecture; Formalization adapted to each company...

- Product of Institutional Isomorphism (See Institutional Theory)? Formalization: consistent from one company to another...
3. Analysis of ethical formalization

- 3 institutional pillars (Scott 1995, 2001) : regulative, normative, cultural-cognitive
Definition of legitimacy

Generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995)
First results of an exploratory study...

- 118 texts collected on websites of companies (from Fortune Global 100)
  - 67 mostly focused on values
  - 51 on principles (of responsibility, of conduct)
- SPAD software: textual statistics and lexicometry
First results (2)

- 36'531 words
  - 14'221 (39 %) for ‘Values’ (21 % of distinct words)
  - 22'310 (61 %) for ‘Principles’ (16,5 % of distinct words)
Words distribution
### 39 most common words (Frequency)

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<td>WE</td>
<td>948</td>
<td>PEOPLE</td>
<td>104</td>
<td>SERVICES</td>
<td>62</td>
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<td>OUR</td>
<td>786</td>
<td>GROUP</td>
<td>92</td>
<td>CORPORATE</td>
<td>60</td>
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<td>WITH</td>
<td>278</td>
<td>COMPANY</td>
<td>86</td>
<td>RESPONSIBILITY</td>
<td>56</td>
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<tr>
<td>ARE</td>
<td>248</td>
<td>VALUE</td>
<td>85</td>
<td>CONDUCT</td>
<td>55</td>
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<td>IS</td>
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<td>INTEGRITY</td>
<td>83</td>
<td>SHAREHOLDERS</td>
<td>55</td>
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<td>BUSINESS</td>
<td>217</td>
<td>WORK</td>
<td>75</td>
<td>HUMAN</td>
<td>55</td>
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<td>WILL</td>
<td>194</td>
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<td>74</td>
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<td>54</td>
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<td>NOT</td>
<td>70</td>
<td>RELATIONSHIPS</td>
<td>54</td>
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<tr>
<td>ALL</td>
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<td>ENVIRONMENT</td>
<td>65</td>
<td>BEST</td>
<td>53</td>
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<td>64</td>
<td>SOCIAL</td>
<td>51</td>
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<tr>
<td>CUSTOMERS</td>
<td>121</td>
<td>INFORMATION</td>
<td>64</td>
<td>ENVIRONMENTAL</td>
<td>49</td>
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<tr>
<td>VALUES</td>
<td>115</td>
<td>PRODUCTS</td>
<td>64</td>
<td>COMMITMENT</td>
<td>49</td>
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<tr>
<td>RESPECT</td>
<td>111</td>
<td>COMMUNITIES</td>
<td>62</td>
<td>SUCCESS</td>
<td>48</td>
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</tbody>
</table>

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## Characteristic words (comparison)

<table>
<thead>
<tr>
<th>Values</th>
<th>Principles</th>
<th>Values</th>
<th>Principles</th>
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</thead>
<tbody>
<tr>
<td>VALUES</td>
<td>WE WILL</td>
<td>COMMON</td>
<td>POLITICAL</td>
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<tr>
<td>PEOPLE</td>
<td>INFORMATION</td>
<td>WORLD</td>
<td>BUSINESS PRINCIPLES</td>
</tr>
<tr>
<td>WE</td>
<td>EMPLOYEES</td>
<td>ACTION(S)</td>
<td>POLICIES</td>
</tr>
<tr>
<td>OUR VALUES</td>
<td>OF INTEREST</td>
<td>PERFORMANCE</td>
<td>BUSINESS CONDUCT</td>
</tr>
<tr>
<td>OUR</td>
<td>SHALL</td>
<td>COMMITMENT</td>
<td>REPUTATION</td>
</tr>
<tr>
<td>RESPONSIBILITY</td>
<td>PRINCIPLES</td>
<td>SHARED</td>
<td>CONFLICTS OF INTEREST</td>
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<tr>
<td>LONG-TERM</td>
<td>WILL NOT</td>
<td>NEW</td>
<td>ITS EMPLOYEES</td>
</tr>
<tr>
<td>PASSION</td>
<td>PUBLIC</td>
<td>TOGETHER</td>
<td></td>
</tr>
<tr>
<td>INTEGRITY</td>
<td>CONFLICTS (OF)</td>
<td>CORE</td>
<td></td>
</tr>
<tr>
<td>TRUST</td>
<td>LAWS</td>
<td></td>
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<tr>
<td>INNOVATION</td>
<td>IF</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WE ARE</td>
<td>BENEFITS</td>
<td></td>
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<tr>
<td>EXCELLENCE</td>
<td>SUPPLIERS</td>
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</tbody>
</table>
Correspondence Analysis for ‘Values’

**Disconnected Values**
- Renewability, nearness, sustainability, responsibility

**Contextualized Values**
- Corporate citizen, incidents
- Code, principles

**Disconnected Values**
- Openness, act, reciprocity, Freedom, Fairness

**Strong Commitment**
- Philosophy, Dreams, Beliefs, Ethically
  - We, History, hard-working, customers, cars

**Weak Commitment**
- Fuel-efficient, Recycling
  - Code, principles

(from editor and for recipient)
‘Principles’
Correspondence Analysis for ‘Principles’
Correspondence Analysis for ‘Principles’

Axiology

Ontology

Teleology

Professional Ethics

Protection, information, conduct, gifts...

Legality, impersonality, fraud, confidential, compliance...

Weak Commitment

Strong Commitment

Rules/Compliance

Values/Commitment

Customers, autonomy, dignity ...

Axiology

Ontology

Teleology

Never, you, violations...

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Two main logics:

- Cultural-oriented; eliciting the adhesion of the stakeholders to the values and aims of the organisation

- Compliance-oriented; based on respect for rules, strict monitoring and punitive system in case of violation
To conclude...

- Formal ethics policy = a mix between efficiency and legitimacy

- Ethics in France: more a questioning process than a matter of compliance