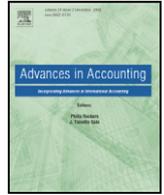




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Positioning codes of ethics on international corporations' websites: A six-year longitudinal study

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ABSTRACT

This research examines the level of international website disclosures of corporate codes of ethics during the period of July 2002 and July 2003, which surrounds the enactment of the Sarbanes–Oxley Act (SOX) in United States. We also gathered similar data from these corporations' websites in April of 2006 through April of 2008 (i.e., three through five years after the effective date of SOX). In April of 2006 (2007 and 2008), 30 (34 and 36) of the 43 corporations listed on the New York Stock Exchange (NYSE) had readily available codes. While not required to have their codes on their corporate websites, 14 (18 and 23) of the 49 corporations that were not listed on the NYSE also had readily available codes. Our research also indicates that corporations headquartered in Europe were more likely to have readily available codes of ethics than corporations headquartered in the Pacific region in 2006 and 2007 but not in 2008.

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1. Introduction

In the wake of the Enron–Arthur Andersen crisis and other financial debacles, an expedient way for management to indicate their openness to external scrutiny would be to make their corporation's code of ethics readily available to all stakeholders on their corporate website. While hundreds of articles in business ethics and accounting journals have examined various aspects of ethics codes, none of these studies empirically examine the issue of internationally-headquartered corporations making these codes readily available to all stakeholders through the worldwide web. This research is an empirical extension of: Schwartz's (2002) research about making codes available to outside stakeholders on corporate websites; Bondy, Matten, and Moon's (2004) research on the location of codes on corporate websites; and, the Securities and Exchange Commission's (SEC) requirement for website disclosure of codes.

This research examines the positioning of codes of ethics on their corporate websites to ensure their availability to outside stakeholders during the timeframe surrounding the enactment and implementation of the SOX including their position in April of 2008. Research by Schwartz (2002) and Bondy et al. (2004) suggest that codes of ethics will be as 'readily available' to stakeholders on a corporation's website as their annual report (i.e., access to a corporation's code of ethics should not require a dedicated individual). One might question what difference the ease or difficulty in accessing a company's code makes. This attitude suggests that, as long as one follows the letter of the law (i.e., doing the minimum), the spirit of the law doesn't matter, which was what caused the problems with Enron and WorldCom.

All publically-traded corporations that are headquartered in the United States would be required to have their code of ethics listed on their websites because of SEC and Stock Exchange requirements. Consequently, we test whether the rate of 'readily available' codes varies by exchange reporting requirements for a sample of 92 internationally-headquartered companies from the Global Fortune 500 (Fortune, 2002).¹ Forty-three of these corporations (46.7%) are listed on the NYSE and thus are subject to the disclosure requirements of the SOX. However, the other 49 corporations (53.3%) are not subject to these requirements and serve as a control group for the placement of their codes of ethics.

2. Literature review

2.1. Overview

In a study of Fortune 500 companies from 1960 through 1994, Ruhnka and Boerstler (1998, pp. 322–323) found that the number of codes of ethics had increased from 50 to approximately 100 for Fortune 500 companies in 1976 due to the SEC's amnesty for voluntarily reporting illegal foreign payments; this amnesty expired at the end of 1976 just prior to the effective date of the Foreign Corrupt Practices Act (1977). Ruhnka and Boerstler also report that a second sharp increase in the number of codes occurred in the 1989 to 1990

¹ Of the 97 corporations with headquarters in the United States in LaCross and Bernardi's (2006) study, 90 (92.8%) had readily available codes of ethics on their websites by April of 2006. The difference in readily-available codes between the 97 corporations headquartered in the United States and the 92 internationally-headquartered corporations was significant ($\chi^2 = 35.31, p = 0.0001$). Given the listing requirements of the SEC in the United States, we limited this research to internationally-headquartered corporations.

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period just before the January 1991 effective date of the Federal Organizational Sentencing Guidelines. Ruhnka and Boerstler's data indicate a decline in the rate of increase after the end of the amnesty periods. Consequently, we anticipate a pattern similar Ruhnka and Boerstler's for readily available codes (i.e., a sharp increase in the level of readily available codes leading up to the effective date of Sarbanes–Oxley and then a sharp leveling off) and corporations going beyond the 'letter of the law' by having a readily available code.

This study does not measure Sarbanes–Oxley compliance; rather, it documents the extent of making codes of ethics readily available on corporate websites based on Bondy et al.'s (2004) suggestion about the location of codes on corporate websites. In the literature review, we review the SOX (U.S. Congress, 2002) that was enacted in the wake of this crisis to restore the public's confidence in the auditing profession (Donaldson, 2003). The SOX requires corporations to disclose whether or not they have a code of ethics (i.e., all corporations must have a code of ethics); however, SOX did not specify the media to be used. The SEC (SEC, 2004) emphasized this requirement by ruling that corporations listed on the NYSE must include their code of ethics on their website or make a printed copy available to anyone who requests it at no charge.

2.2. Codes of ethics: goals and disclosure

White and Montgomery (1980) and Cressey and Moore (1983) suggest that the goals expressed in a code of ethics about corporate behavior should go beyond merely adhering to the law. Deloitte and Touche's CEO called on multinational corporations to make a difference by "implementing voluntary codes of behavior that set objective, quantifiable standards" (Parrett, 2004). Not surprisingly, factors that commonly influence a company's reputation such as: following the law; having a reputation of trust and integrity; avoiding conflicts of interest between personal and company obligations; and, maintaining the integrity of confidential information were emphasized in corporate codes of ethics (Kaye, 1992, p. 859).

To gain the public's trust, the concerns of each group of stakeholders must be considered as each has a legitimate interest in the corporation and its behavior (Donaldson & Preston, 1995). Kaptein and Wempe (1998) indicate that codes provide a basis for evaluating how well a corporation meets the public's expectations. However, for this to occur, a corporation must make its code of ethics available to stakeholders (Schwartz, 2002, p. 34) because:

The company cannot be held accountable unless the code's standards are available. For outside stakeholders such as customers, regulators, or the general public, companies are therefore obligated to provide copies upon request. Placing the code of ethics on the internet is one means of ensuring accessibility to the code by the outside public.

Corporations must maintain the society's approval of their actions or risk threats to their continued legitimacy (Kaplan & Ruland, 1991). Consequently, the legitimacy of a corporation is based on the expectation that a corporation's behavior is "desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). If a society disapproves of the corporation's actions, the society can impose sanctions such as implementing new government regulations that affect the corporation and its industry (Deegan & Rankin, 1996). These authors also suggest that, when the public's trust is significantly violated as in the case of Enron and destroying incriminating documents by Arthur Andersen, the society can revoke the corporation's right to operate. In the Enron crisis, the SEC's indictment of Arthur Andersen effectively terminated their main line of business. Even before the SEC's indictment, Freddie Mac, Merck, Delta Air Lines and Sun Trust terminated their audit relationship with Arthur Andersen (Hedges & Ivanovich, 2002).

Lehman (1992) maintains that, when a significant violation of the public's trust occurs, corporations must provide evidence to mitigate or refute the perception that they have violated the public's trust (i.e., damage control). For example, Patten (1992) notes that Exxon's 1989 annual report included substantial coverage of the Exxon Valdez incident, the cleanup effort and additional environmental disclosures. Indeed, Exxon's 1989 coverage of the Exxon Valdez incident was ten times their 1988 coverage of environmental issues. Consider Arthur Andersen's actions immediately following the news of their failed Enron audit. Andersen's CEO Bernadino (2002) steadfastly maintained that shredding old audit papers was a standard practice in auditing during a nationally television news interview. Rather than indicating no violation had occurred, Bernadino should have provided evidence to mitigate the challenge to his corporation's legitimacy.

While responding to corporate lapses such as the Exxon Valdez incident in an annual report was appropriate in 1989 (Patten, 1992), the worldwide web is now a readily available source of information to essentially all corporate stakeholders. However, Deloitte and Touche (2003) found that, while stakeholders were cited in 90% of the responses to their survey, only half of these stakeholders have access to corporations' codes of ethics.² To remedy this lack of accessibility, Deloitte and Touche (p. 2) suggests that:

An electronic version of the code can be posted on the corporate website and concerned parties can be notified of its availability through printed invoices, brochures, contracts and elsewhere. (Emphasis added by the authors).

Bondy et al. (2004, p. 466) suggest that burying codes of ethics in "the depths of their websites" leads "one to question how transparent and important these codes are actually meant to be." Bondy et al.'s research, the requirements for codes of ethics by the SOX and the SEC's listing requirement suggest that codes should be 'readily available' to all stakeholders.

2.3. Sarbanes–Oxley and website ethics disclosures

In the United States, significant violations of the public trust typically involve legislation requiring additional governmental oversight (Weaver, 2001). The SOX (U.S. Congress, 2002), which required compliance by the end of March 2003, was enacted in response to the public's growing loss of confidence in the accounting profession (Donaldson, 2003). This is consistent with Schwartz's (2002) belief that having the corporation's code of ethics on its website is a means of holding the company accountable for the code's standards. Higgins and Currie (2004, p. 303) also maintain that corporations should 'make a serious commitment to issues beyond the financial performance of the organization.' If one follows this line of reason, then codes of ethics should have the same external accessibility as a corporation's annual report. For instance, think of how quickly one can obtain an annual report from a corporation's website; in the most cases, this can probably be done within two levels of a corporation's homepage. In response to the requirements of the SOX, the SEC (2004) confirmed their proposal to require either website disclosure of corporate codes of ethics or providing a printed copy of their code to anyone requesting it free of charge for any corporation listed on the NYSE. Given this, we believe that we should control for the possibility of a 'NYSE' effect; our first hypothesis tests whether:

H1. The readily available rate for corporations listed on the NYSE will be higher than for corporations not listed on the NYSE.

² These data came from a two-part question: (1) Does the code of ethics and/or conduct include a statement regarding obligations to employees, shareholders, suppliers, customers and the community at large?; and, (2) If yes, is the code of ethics and/or conduct distributed to all parties listed?

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