Corporate ethical codes as strategic documents: An analysis of success and failure

Betsy Stevens

Abstract

Ethical codes state the major philosophical principles and values in organizations and function as policy documents which define the responsibilities of organizations to stakeholders. They spell out the conduct expected of employees and articulate the acceptable ethical parameters of behavior in the organization. Most large US and multinational firms today have a code. If utilized effectively and embraced, codes can be key strategic documents in organizations for moderating employee behavior and reducing unethical actions. To be effective they must be communicated well and become a part of the culture of the organization. An ethical code from a major investment bank is analyzed in terms of code effectiveness, transformational communication, and its role as a key corporate strategic document.

Keywords

Ccorporate ethical codes, strategy, ethics, Lehman Brothers

Introduction

Ethical codes are documents which state the major philosophical principles and articulate the values embraced by an organization. Effective codes are policy documents which define the responsibilities of organizations to stakeholders, the conduct expected of employees (Kaptein & Wempe, 2002) and articulate the ethical parameters of the organization—what is acceptable and what is not (Stevens, 1996). A code can be used as a key strategic document in an organization or it can simply be window dressing—an artifact to make the organization appear more ethical to its stakeholders. Some firms draft codes to create a positive public image or receive a break under Federal Sentencing Guidelines; others attempt to guide and focus employees on ethical behavior appropriate to the organization. This paper analyzes corporate codes as strategic documents and examines why some are successful while others fail. When codes do not function as key documents, they usually have not been communicated effectively or culturally embedded in the organization. As a case study, the ethical code from a major failed investment bank is analyzed in terms of code effectiveness, transformational communication, and its effectiveness as a key corporate strategic document. Some ways a different code might have helped the company are examined in light of the company's demise.

Definition and scope of ethical codes

Codes range in length from one paragraph to more than fifty pages and are intended to impact employee behavior (Stevens, 1994). Also called codes of conduct, business principles, codes of ethics and corporate ethics statements, they typically contain open guidelines describing desirable behavior and restrictive language prohibiting other behaviors such as bribery and conflict of interest (Nijhof, Cludts, Fisscher, & Laan, 2003). Codes enhance social responsibility and clarify the norms and values the organization seeks to uphold. Most importantly, they are messages through which the corporations attempt to shape employee behavior and effect change through explicit statements of acceptable behavior (Stevens, 1994). Codes differ from mission statements by articulating the value system and answering the question—with what ethical standards and values should the mission be pursued? In contrast mission statements spell out the objectives of a company and articulate organizational goals. Firms frequently attempt to manage and articulate ethics through their codes which are designed for internal and external audiences.

An effective code enhances social responsibility and clarifies the norms and values the organization seeks to uphold. It is visionary and transformational, providing guidance in difficult circumstances (Stevens, 2008). It sets the tone for the organization and can be the key corporate strategic document upon which all decisions are based. Adherence to the code in ethical organizations is a commitment an organization can undertake to ensure a strong ethical climate. When codes are embedded in an organization's climate and both leaders and employees embrace the codes with words and actions, they can help create and maintain successful ethical organizations. Embedding the code means prioritizing strategies and policies so the code occupies a central position in the organization.

The use and content of codes

Most large U.S. corporations today have an ethical code, after increasingly adopting them in the 1980's and 1990's (Chonko et al, 2003; Trevino et al, 1999) and they can found in about fifty three percent of the largest companies worldwide (Kaptein, 2004). Code content in the 1980's showed that most reflected concern over unethical behaviors that could hurt profits, and showed a weak commitment to social responsibility (Cressey & Moore, 1983). Complying with federal laws and avoiding conflicts of interest were common themes at that time (White &

Montgomery, 1980). A content analysis performed by Mathews (1987) showed that firms primarily emphasized avoiding illegal activities, employee misconduct and placed little emphasis on the environment, product quality, or safety. Another study confirmed that the most frequently mentioned topics in codes were conflict of interest, gifts, and misuse of confidential information (Pitt & Groskaufmanis, 1990). Steven's study several years later showed that codes were primarily designed to defend organizational against egregious behavior by employees and were lacking in ethical guidance and vision (1996). Snell and Herndon agreed, concluding that codes were focused largely on corporate self-defense (2000).

Code content also differs across countries and continents. Langlois and Schelgelmilch's study of codes from England, France, Germany and the U.S. revealed that British and European codes discussed government and customer relations less frequently than American codes (1990). Kaptein's study (2004) identified content differences among European, Asian and North American codes. European codes focused far more on the environment than American codes and honesty was a more significant issue with Americans. Sixty four percent of American codes mentioned honestly as compared with forty five percent of European codes and thirty eight percent of Asian codes, but fairness was mentioned more frequently in European and Asian codes. These content differences reflect varying cultural beliefs and values held by managers and employees in these countries.

The value of codes in organizations

Codes can help improve a company's reputation and discourage government intervention, allowing companies manage themselves with less regulation. European companies have increasingly used codes to regulate labor relations and discourage government intervention (Sobczak, 2003). They can improve work climate and leave employees feeling positive about the company (Manley, 1991), shape employee behavior, and positively influence ethical decision-making (Trevino and Weaver, 2003, p.258). Trevino and Weaver's research showed that open discussions about ethics in the organizations contributed to increased ethical behavior. Additionally they found that strong leaders who share their values with others positively affected the organization and its code (2003, p. 8).

Laufer and Robinson's study surrendered information showing that when employees' and managers' behavior was consistent with codes, their behavior positively influenced others in the organization (1997). Ford and Richardson noted fewer instances of unethical behavior in companies with codes than without (1994). Findings from another study showed management accountants perceived less wrongdoing in organizations with corporate codes and respondents in organizations without formal codes were more aware of wrongdoing (Somers, 2001). His study also revealed that accountants in firms with ethical codes were influenced positively by codes in the areas of profitability, moral behavior and charitable donations. Valentine and Barnett (2002) found a positive effect with sales professionals' perceptions of their organization. Additionally codes of ethics can help develop patterns of trust among employees (Scalet, 2006). All of these studies indicate that codes can encourage employees and managers to act with integrity and can serve as valuable managerial tools. Kaptein and Schwartz reviewed sixty seven code studies and found codes positively affected behavior in many organizations (2008). This study added to the growing body of knowledge supporting the use of codes and provided additional evidence that codes work.

What makes codes work effectively?

Good communication

Codes can serve as core foundational documents that give organizational members a sense of shared values and commitment to ethical purposes (Stevens, 2008). A number of studies have yielded evidence that they work in deterring unscrupulous behavior, but codes must be communicated effectively and supported by the management team. Good communication is the first requirement for effectiveness.

Communication plays a central role in code effectiveness; members must be aware of the code and know why it exists. Weeks and Nantel (1992) and Adams and Rachman-Moore (2004) noted the relationship between codes and organizational communication. They saw that codes were effective if they were communicated well through the right channels. The manner in which ethical codes are communicated contributes directly to their success or failure. Schwartz's study of codes found that they are most effective when they are readable, relevant and written positively rather than negatively (2004). When communication is discouraged or absent, silence can kill a company. Perlow and Williams cited the Enron corporation as an example of silenced organization where individuals felt they could not speak freely about wrongdoing (2003).

Conversely, the lack of communication has been attributed to code failure. While strong evidence exists showing that codes are effective under the right conditions, they sometimes fail to prevent unethical behavior. The Enron corporation had a code, but it also had three sets of books and the board of directors twice suspended the code (Sims & Brinkman, 2003). Many other examples of companies with ethical codes acting unethically can be found. Codes fail when communication is ineffective.

Communicating a code from the top often leads to the code being ignored. Mandated codes in a highly centralized structure have been rendered ineffective because employees rejected attempt at control (Trevino & Weaver, 2003). Creating a code will not insure that ethical behavior will occur; ethics, the code, and ethical decision-making must be infused into the organization and not ordered from the top down (Neube & Wasburn, 2008). One U.S. study examined whether an ethical compliance program of ethical codes, training, and communication would result in fewer OSHA violations. Researchers found no positive correlation and concluded that the ethics programs might simply be artifacts to deflect any criticism of the corporations' ethics (McKendall, DeMarr & Jones-Rikkers, 2002). Attempts at regulation and control through codes are problematic, so it is not surprising that codes in these compliance programs did not achieve their goals. Forced code compliance does not work because codes communicated downward to employees by senior management are seen as edicts.

Codes are typically communicated in orientation literature or posted on the company website. Hence many employees do not read the code until an event or crisis occurs. Several decades before the exponential growth of electronic messages such as e-mail, instant messages, memos, faxes, and voice mail, Davis noted the "overpublication" occurring in organizations (1972). Many employees are overwhelmed by a plethora of messages to which they must respond. McKibben recently observed that employees faced with many messages absorb and respond to bursts of information automatically, rather than thinking carefully about them (2003). Reflection time is absent from many organizational cultures; A code can become simply become another compliance document that is easy to ignore.

Embedded in the culture

The second key factor for code success requires they become embedded in the organization and integrated into the culture. When coupled with the right ethical behavior from managers, they are more effective than formal ethical training (Adam & Rachman-Moore, 2004). Code effectiveness is identified with corporate boards setting the tone in organizations at the top (Schwartz, Dunfee & Kline, 2005). Codes which become organizationally embedded have effective leaders who can create and manage ethical cultures. Codes work when employees see organizational actions which are in line with the code. Discussions about values, and debates in companies with codes help organizational members realize that taking the right action often requires dialogue with others (Adams & Rachman-Moore, 2004).

Members respond to visible justice so if managers' or employees' behaviors do not match the code and nothing happens, it will fail. Nitsch et al observed that frustration, anger and cynicism develop when code violations are unchecked (2005). Employees are sensitive to fairness issues and perceived unfairness or unequal treatment can cause low trust in the organization (Kickup, 2005). As distributive justice is important in organizations (Greenberg, 1990), organizational leaders who build trust by ensuring justice prevails strengthen members' commitment to the code.

Codes can fail if rejected by the organization's culture. Marnburg studied a group of Norwegian businesses with codes, measuring the ethical attitudes of engineers and economists and found that the mere existence of a code did not influence the attitudes of respondents. He observed that it was not enough simply to have a code. Organizational members need to acknowledge and accept the code for it to be effective, and in this case, they did not. In another example, Chinese organizations failed to adopt best practices of a code because of the collectivist features in the culture. Pseudo-support was given, but companies did not adhere to the code even when it was in their best interests to do so (Snell & Herndon, 2000). The authors hypothesized that power distance and culture caused the behavior since subordinates are under pressure to publically support their superiors even if they do not agree with a decision. Snell and Herndon's study illustrates the interplay between culture and codes; codes imposed on workers by external agents are ineffective. Simply put, managers cannot order employees to act ethically; codes attempting to impose legal controls and regulate ethics do not work.

Healy and Iles found that codes issued by London IT firms attempting govern information and technology did not work and behavior of IT end users in organizations was not changed (2002). Again using codes to achieve governance and compliance falied. Top down attempts to control used in this fashion fail, which explains why Marnburg, McKendall et al, Healey and Iles and Snell and Herndon reported unsuccessful results. In all of these studies, codes failed to regulate behavior. Schwartz (2000) also observed that codes cannot be compliance control systems and Trevino and Weaver agreed saying forced legal compliance places codes outside the climate and culture boundaries where employees feel ownership (2003, p. 194). Culture and cooperation—not mandatory compliance—create the climate where codes become effective.

Transformational leadership and codes

Transformational leadership was first discussed in depth by Burns (1978) and furthered developed by Bass (1985) as embodying the characteristics of influence, intellectual stimulation and inspirational motivation. More recent empirical studies have explained relationships between transformational leadership and motivation, attitudes and organizational performance. Followers have higher trust levels in their leaders (Podsakoff, MacKenzie, Morman & Fetter, 1990) and consider their leaders more effective at communicating organizational goals (Berson and Avolio, 2004).

If one of the goals of transformational leadership is to "make better citizens of both leaders and followers" (Burns, p. 461), then the ways leaders communicate is extremely important. But transformational communication has not been widely studied and little information exists on the subject. Fairhurst (2007) argues that more attention be paid to the communicative process of transformational leaders which might undermine some of the simplistic notions about all-powerful leaders. He stresses a more dialogic approach focusing on communication and leadership, upward communication and effective communication with followers. More research about how transformational leaders communicate and ways they engage followers in stimulating, motivating, and influential ways is needed. However, one useful framework exists which is appropriate for analyzing codes.

A model which captures discourse interaction is the Competing Values Framework (Quinn, Hildebrandt, Rogers, & Thompson, 1991) which is used to assess communication. The transformational, instructional, informational, and relational elements represent different rhetorical dimensions of managerial communication which are opposite values.

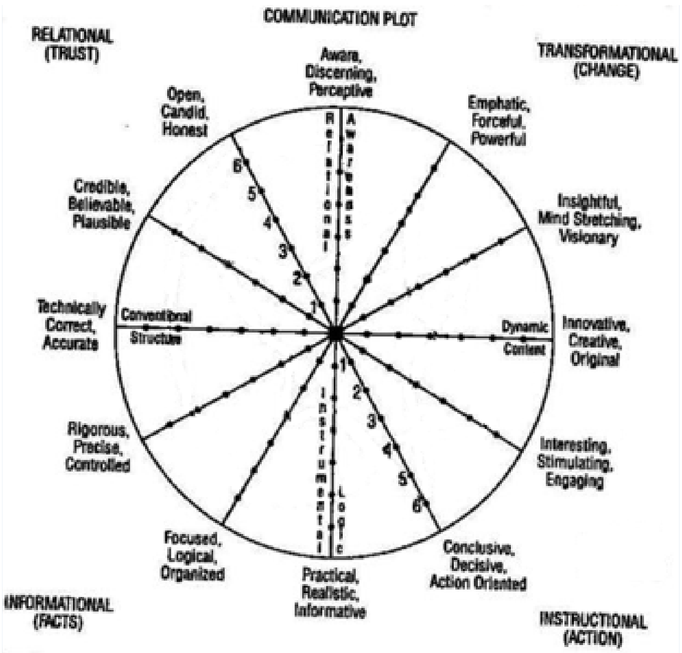

Figure 1
Competing Values Framework

Central to the model is the concept of competing values or the understanding that a document may have strengths or weaknesses in more than one area. The model reflects a multi-dimensional approach where strength in one area may directly cause weakness in another. This is particularly important in examining ethical codes as they involve complex, multifaceted, and often conflicting ideologies. Hence architects of a code may design it to be both transformational and instructive. Using this model helps identify more than content; it reveals some of the philosophical underpinnings of the code itself. If a code shows strength or weakness in a quadrant, it helps identify some of the key characteristics of that code.

Code studies provide rich information about which subjects are present or absent, yet some fundamental questions remain. Would perspicacity be increased by looking at code dimensions which extend beyond topical analysis? For example, are they visionary? Do they instruct? Do they motivate? Are they written in ways which encourage or discourage compliance? Content analysis usually does not discern subtexts and more subtle messages buried in text. A rhetorical analysis using the Competing Values Model can accomplish this more efficiently and this was used to analyze the Lehman Brothers code.

Documents with transformational aspects reflect language which is change-oriented and values-driven. Central descriptors of transformational communication include words such as "emphatic, powerful , forceful" and " insightful, mindstretching, visionary" (Quinn, Hildebrandt, Rogers & Thompson, 1991). Transformational communication typically talks about change, the value of change and encourages commitments to change. It is likely to be organized in a persuasive fashion and incorporate reason-giving messages and the tone may be inspirational and visionary (Stevens, 1996).

Lehman and the investment bank crisis

Lehman Brothers, Inc., a 158 year old investment bank, closed its doors in September, 2008. Its shares plummeted shortly after announcing a $2.8 billion loss in the third quarter of 2008. Lehman was widely exposed to toxic subprime mortgages and the Federal Government declined to rescue the bank, citing its size and lesser impact on the economy. Like those at several other investment banks, managers at Lehman did not consider the risks of defaulted subprime loans or a downturn in the economy, yet both occurred simultaneously. They were audited by Ernst and Young who also failed to weigh in the risks (Richard, 2008). The company filed for bankruptcy of September 15, 2008 and its New York operation was purchased by Barclay's Bank. Other investment banks also needed emergency assistance. Bank of America bought Merrill Lynch for $50 billion. Bears Stearns was subsumed by JP Morgan Chase which also bought the bankrupt Washington Mutual Bank, whose collapse represented the largest bank failure in U.S. history.

The financial crisis

The US is suffering from a financial crisis caused by banks selling numerous subprime mortgages to people who could not afford them. Banks reduced their risks by moving mortgages off their books and selling them in bundles. Evidence of wrongdoing by those who issued mortgages is visible (Efrati & Perez, 2008; Miller & Fallati, 2007). The ultimate losers were the large insurers, stockholders, taxpayers and the investment banks. Although its assets exceeded $600 billion, Lehman Brothers was one of the casualties.

Lehman's demise was caused largely by their deep involvement with derivitives, a way of allowing investment banks to shift money from firm to firm. They are contracts or bets that put a value on a security during a specific time and their attraction to banks is that they smooth over fluctuations of interest changes, bond defaults, and financially rough periods. The owner then uses collateral from the "new" money to finance other deals. Lehman transmogrified large amounts of money in this way. It does not take an economist or financial analyst to understand that if the same investment is used as collateral for multiple transactions and moved around to different locations, something is not right. While the investment banking industry has been hard hit and shares of Bear Stearns and Lehman became worthless, one has to ask if Lehman's ethics were based on values, building wealth without exploitation, and honesty? Were diligence, care, reason, fiduciary caution and the desire to take care of employees and shareholders reflected in the code and the culture?

The meltdowns in the financial sectors occurred because companies acted recklessly and assumed too much risk. The U.S. government has not been sufficiently strict with financial institutions or tried to belay aberrant behaviors. Also there is considerable evidence that crime pays —at least in the U.S. Courts there have ordered restitution to victims of corporate fraud, but most are not repaid. A study by the US General Accounting Office (GAO) examined five white-collar financial fraud criminal debt cases and found that victims collected only about seven percent of what was owed to them (Engel, 2005). Nine investment banks were fined in 2003 by the Securities and Exchange Commission, but the fines were minimal compared to the profits companies gained using corrupt practices.

An analysis of Lehman's code

In using the Competing Values Framework to analyze the code, two questions are considered. First, did the Lehman code focus primarily on the relational or trust, transformational, instructional or the informational aspects reflected in the model? Second, were the core parts of the Lehman code sufficiently transformational to provide guidance in the time of crisis?

The Lehman Brothers Code of Ethics is a five page document outlining the behaviors that were expected from its employees. Its first page is an introduction stating that all employees must comply with the code. Four pages of the body then follow. Page one states that the code is meant to be read along with Lehman's internal Code of Conduct, which is also discussed in this paper. These two documents comprise Lehman's position on its corporate values.

Paragraphs three and four contain strong statements about trust (p. 1, Lehman Brothers Code of Ethics). The code emphasizes that strong client relations have been built over the years with the statement, "The lynchpins of that trust are our ethical standards and behavior. We must always do business in a manner that protects and promotes the interest of our clients" (p. 1). Paragraph four takes a stronger position stating that "Ethical business practices are the product of more than a fear of legal ramifications." Then follows "Ethical business practices entail a clear understanding of right and wrong, and a motivation on the part of our directors and employees to act at all times in a manner of which they can be proud" (p. 1, para 4). These sentences have transformational aspects to them as they can be described as insightful, mind stretching and visionary. They outline the philosophy of ethics and the language used is not a reflection of the opposite concept on the model—rigorous, precise and controlled. So in this passage, one finds transformational elements.

But the remaining four pages of the body communicate in a different way with a legalistic tone and language that is not conversational or insightful. For example, a passage on page 2 states, "The Firm has established procedures for submitting concerns regarding accounting, internal auditing controls or auditing matters to the Audit Committee of the Board and for submitting other concerns to the non-management members of the Board (p. 2, paragraph 3). Here language becomes more dense and it continues as the code progresses. A paragraph on p. 5 about full and fair disclosure is comprised of only three sentences, but the first uses 32 words , the second, 69 words and the third, 56 words. These are extremely complex sentences, considering the average business document uses sentences ranging in length from 16 to 24 words (Guffey, 2008; Ober, 2006). Many other sentences in the document exceed 50 words.

The code addresses the basic topics found in most corporate codes such as conflict of interest, retaliation, stealing, use of proprietary information, non-retaliation, and compliance with laws, EEO issues and fairness. Not particularly unique as a code, it appears to be written by legal staff to protect the firm against egregious behavior, a typical approach used in corporate codes in the US (Stevens, 1996). The code relies most heavily on phrases reflected in informational quadrant whose central descriptors on the model are"rigorous, precise controlled" and"focused, logical, organized." The vast majority of language and information fits these descriptors as many of the sentences are commands phrased in passive voice, as in "Employees and directors are not permitted to remove, sell, loan, convey, or dispose of any record, voucher, money, or things of value belonging to the Firm without the Firm's consent" (p. 3, para. 4). In stressing informational, fact-based material, the writers sacrificed the transformational aspects which are in opposite positions on the model.

While culture is discussed on page one saying the code will "help maintain a culture of honesty and accountability" (p. 1, para 1), it is never again discussed and no statements are present to help employees understand how Lehman's culture is unique and what values differentiate it from the other investment banks. The clear understanding of right and wrong beyond violating laws is not articulated. So questions are left answered such as --What does Lehman value most of all and how does an employee come to understand Lehman's unique cultural ethical values? Answers to these are other questions are not found in the code. Instead, the remaining four pages stress legal responsibilities, stating that employees must comply with the code, report violations, and not engage in conflicts of interest or personal gain. It cautions against outside employment and affiliations and tells employees not to steal, act on proprietary information, or violate the laws. The code affirms that Lehman follows EEO laws, believes in fairness and full disclosure and ends saying the Board of Directors may waive the code at their discretion. With its extremely legal focus and language, this code would be most useful to Lehman attorneys wanting to legally separate the egregious actions of an employee from the organization.

What is missing? The code is weak in transformational aspects giving little guidance in gray areas. It does not help when wrestling with a difficult decision; rather the code almost exclusively discusses topics that violate federal laws and warns employees not to break them. Also missing are the values of the corporation beyond adhering to laws. Nowhere in the Lehman code can be found a discussion about managing risk responsibly. One does not find any statement telling employees to safeguard the company's assets so the company will endure in times of financial stress. Rather, an opposite message in conveyed with "Employees and directors have a duty to the firm to advance its legitimate interests whenever the opportunity arises." (p. 3, para 2). The next sentence admonishes the employees not to take anything for themselves or their friends. On the fourth page the employee is urged to"compete aggressively in furthering the interests of the firm" which, of course, is a perfectly valid position for Lehman ---but it lacks elaboration along ethical lines. When should the employee compete aggressively? Under what conditions should more restraint be exercised? How far should one go in competing aggressively? What are Lehman ethics and values in those circumstances where it may not be the right thing to compete aggressively? None of these issues are addressed.

Lehman's ethical code and code of conduct are nearly devoid of transformational language. No visionary ideas are present and it is not an inspirational or thought-provoking document. Generic to the extent that with a few changes in wording, the code could be applied to any bank, insurance company or financial institution, it raises no issues other than those that could hurt the firm. Additionally, Lehman's code says nothing about protecting the environment, a committing to the community in which they lived, or adding value to the world community.

When codes such as Lehman's focus too narrowly on prescribing or dictating behavior, they miss the transformational aspects that could be present and lack guiding, visionary thoughts and language. A 1996 study showed codes were generally framed from a defensive position to protect the organization against egregious behavior and could benefit by being more instructional and transformational (Stevens, 1996). Too much focus on prescriptive behavior means the transformational and instructional elements are compromised. A number of scholars have also argued against the downward, command-style approach of communicating ethical values.

The Lehman Brothers Code of Conduct, accompanying the ethical code, is a brief document which governs the relationship between Lehman and external parties such as suppliers and government regulators. Seven pages in length, this document also focuses almost exclusively upon legal compliance. The first section states that strict compliance with laws and regulations is mandatory and senior management is responsible for this outcome. Protection of"reputation, image and intellectual property" is stressed as very important (p. 3, Code of Conduct). Next it says selection of external parties, primarily with purchasing, should be competitive, based on the nature and quality of the services. The code also admonishes managers not to become overly dependent on a supplier.

Dealing with authorities is addressed and the code reminds employees to not to hinder any investigation by hiding information or documents or providing false ones. Here again is a strong focus on legal matters, for this action would be obstruction of justice, which is a felony.

In the following section concerning auditors and controllers, employees are cautioned to use the"highest standards of fairness, transparency, and cooperation" and to provide full and truthful documentation (p. 5). Finally the code discusses the importance of managing confidential data, including insider information and reminds employees to comply with the law. Accepting gifts of a material nature are prohibited if they might influence impartiality, leaving the judgment of such situations up to the employees. The remaining two sections address reporting violations and warn that termination from the firm could occur.

Discussion

To answer the first question, The Lehman code of ethics and internal code of conduct are not documents offering vision and guidance to its employees. Absent are strong guiding principles and visionary aspects that defined Lehman as an organization and it is weak on the transformational aspects of the Competing Values Framework. While the code lays out the basic rules expected of all Lehman employees, executives missed the opportunity to create a unique code that might have throughly defined the Lehman culture. A more transformational code might have identified their unique ethical strengths and values and guided employees through tough decisions. The very act of creating the code is an important managerial process and strategy. Managers need to find the right words to express the ideas and behaviors valued by the organization.

In answer to question two, The Lehman code did a basic job of protecting the organization against illegal actions by employees, but it did little to advance an ethical culture. Perhaps that culture did not exist. A code cannot create a culture that is not present or change the organization by itself.

It would be naive to claim that a different code could have saved Lehman Brothers since a number of complex factors were in play. Regulators were not sufficiently aggressive with financial institutions or nor did they do enough to belay aberrant behaviors. The investment banking industry itself reflects a culture where regulation was ignored. Nine investment banks including Morgan Stanley Dean Witter were fined in 2003, SEC Chairman William Donaldson noted that MWD's CEO Philip Purcell showed "a troubling lack of contrition" (Gross, 2003, p.2). The fines ($1.4 billion) represented only a fraction of the profits companies gained using corrupt practices and the sanctions amounted to a slap on the wrist. Nineteen brokerage firms, including Lehman Brothers, were fined in 2008 for overstating trading volumes to services that compile rankings (Curtis, 2008). Lehman's fine was only $200,000, creating a situation where the gains in misstating information were likely worth far more than the fine

Conclusion

Codes have earned a secure place as strategic management tools; they can send powerful messages to members of organizations about ethical business practices. The very act of creating the code is an important managerial process: finding the right words to express the ideas and behaviors valued by the organization an important strategic action for an organization. A body of research now exists demonstrating that if codes are embedded in the organizational culture and communicated effectively, they can guide and shape ethical behavior. But codes themselves cannot fix organizations. The code is a part of the culture and reflects the values—good or bad—found in an organization.

The Lehman code reflects the culture of the investment banking industry which was aggressive, competitive, and interested in adhering to regulations only when it was in their best interests to do so. In this case, their ethical code was not a strategic document and it did not influence central decision-making. A different code could not have helped the company. Codes that are not key strategic documents embedded in the culture serve primarily as window-dressing to appease stakeholders and do little to influence decision-makers.

In fairness to Lehman Brothers, it is unclear why some corporations were saved and others were left with no lifeline; only time will tell whether the extensive bailouts by the US government were good for corporate America, the world economy, and the companies that were rescued.

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Author

Betsy Stevens. Betsy Stevens is associate professor and chair of the Management Department at Elon University. Her academic interests are business and management communication, business ethics, international communication, and hospitality management. An active researcher, she has published more than 25 articles in refereed journals such as The Journal of Business Ethics, Business Communication Quarterly, The Journal of Business and Technical Communication, Journal of Business Communication, the Electronic Journal of Business Ethics and Organizational Studies, and the Journal of Employment Counseling. She has an M.A. from the University of Cincinnati and a Ph.D. from Wayne State University. As a Fulbright Scholar, she taught university classes in Tomsk, Russia and has also been on the faculty of the Australian International Hotel School in Canberra, Australia. She has taught "Business and Culture of New Zealand" six times in New Zealand as part of Elon University's study abroad program.