The Implementation of Corporate Ethics: 
A Comparative Study between Motorola and Ericsson

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ABSTRACT
This study examines the transformation in corporate ethics policies following the implementation of the Sarbanes-Oxley Act of 2002. It looks at various ethics theories, such as stockholder theory, stakeholder theory, and legitimacy theory; and analyzes the different motivations underlying each theory. Further, it compares and contrasts the ethics policies of a United States company, Motorola, with a Swedish company, Ericsson, both of which are technology and communication companies. Conclusions are drawn in regards to the companies’ motivations for developing and implementing a code of ethics.

INTRODUCTION
Business ethics are likely as old as business itself, but only recently has the implementation of ethical codes of conduct in businesses become of major importance on many companies’ agendas. This is primarily due to the passing of the Sarbanes-Oxley Act of 2002, which was enacted in response to the Enron and WorldCom collapses, and designed to restore confidence and maintain integrity in businesses. Within the Act is a provision requiring companies to disclose whether they have a code of ethics. The Act affects U.S. publicly traded companies and foreign public companies’ ADR securities traded on U.S. markets. The Securities and Exchange Commission has released implementation law relating to the code of ethics requirements set forth in Section 406 of the Sarbanes-Oxley Act of 2002. Under these rules, a company must disclose whether it has adopted a code of ethics that applies to the company’s principle executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. If the company has not adopted such a code, then the company must disclose why it has not done so. The term “code of ethics” is defined as written standards that are reasonably designed to deter wrongdoing and to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely, and understandable disclosure in reports and documents that a registrant files with, or submits to, the Commission and in other public communications made by the registrant;
- Compliance with applicable governmental laws, rules, and regulations;
- The prompt internal report to an appropriate person or person identified in the code of violations of the code; and
- Accountability for adherence to the code.

The rules do not specify every detail that the company could address in its code of ethics. Also, they do not prescribe any specific language that the code of ethics should use. The SEC encourages companies to adopt codes that are broader and more comprehensive than the minimum necessary to meet the new disclosure requirements. The company must make available to the public a copy of its code of ethics (SEC, 2003).

The SEC was not alone in legislating rules relating to ethics. In August of 2002, the New York Stock Exchange updated its listing standards to include a requirement for listed companies to disclose a code of ethics. In addition, in November of 2003, the SEC approved the NASDAQ Corporate Governance rules, which were proposed to strengthen NASDAQ listing standards. These rules require companies to establish a publicly available code of conduct for all employees and directors. This code must contain the elements necessary to meet the “code of ethics” requirements as defined in item 406 of SEC Regulation S-K (NASDAQ, 2003). Through enhanced disclosure and transparency, NASDAQ continues its commitment to restore confidence in the market.
PRIOR RESEARCH

Regardless if it is legislated by law or not, corporate ethical behavior is now receiving worldwide attention. For a variety of reasons, many companies around the world have implemented ethical codes of conduct. The following questions address these issues. Does having a corporate code of ethics generate glamour and sophistication? Does adopting a code of ethics ensure legal compliance, or do companies implement a code to gain legitimacy? Does a company have an ethics statement to satisfy shareholders, or does the purpose go further? We will now explore the rationale and motivation for the existence of ethics codes using the leading “social theories,” that include stakeholder theory, legitimacy theory, and stockholder theory.

Stockholder Theory

An organization may adopt a code of ethics to satisfy its stockholders. Stockholder theory suggests that organizations are responsible only to shareholders, and all of the employees’ actions are directed towards maximizing shareholder wealth without breaking the law. Many organizations may be implementing codes of conduct to satisfy their shareholders. If this is the case, an organization must understand its role in the business community and recognize its limitations, because by narrowing its focus on the shareholders, it may be narrowing its possibilities in the greater society.

Under this theory managers act as agents to the stockholders. The existence of this relationship implies that managers have a duty to not divert business resources away from the purposes expressly authorized by the stockholders, which implies that a business can have no social responsibility (Hasnas 1998). Stockholder theory states that managers are obligated to legally follow the directions of the stockholders. In most cases, the stockholders do not give explicit directives for the purpose of maximizing the return on their investments and so it becomes the manager’s responsibility to maximize the financial returns of the stockholders.

The most famous description of the stockholder theory has been given by Milton Friedman who ironically refers to this as “social responsibility” (Hasnas 1998). “There is one and only one social responsibility of business, which is to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud” (Friedman, 1970). It is manager’s responsibility to maximize profit by all legal and non-deceptive means.

This approach is thought to be a de minimus approach and is argued to be unethical in its narrowed responsibilities of doing what is best for the interest of the stockholders. However, it should be pointed out that this theory is applied on the basis that managers act legally and in a manner in which the stockholders view is ethically responsible. The stockholder theory has been harshly criticized by several business ethicists. It has been described as an outdated remnant of corporate law; however it should continue to be regarded as a theory of business ethics (Hasnas 1998).

Legitimacy Theory

Adopting a code of ethics can legitimize corporate behavior. Legitimacy is a generalized perception that the actions of the organization are proper or appropriate within a given social system (Lehtonen, 2003). Legitimacy theory holds that companies are continually attempting to ensure that their operations fall within the norms of their societies. Adams, Burrowes, and Sparks suggest that:

Legitimacy is attained through organizations convincingly showing relevant constituent groups that the processes and activities carried out by the organization are congruent with the values such groups espouse (2001).

Deegen, Rankin, and Tobin state that “Legitimacy theory relies upon the notion of a social contract and on the maintained assumption that managers will adopt strategies that show society that the organization is attempting to comply with society’s expectations” (2002). There are two dimensions in an organization’s efforts to gain legitimacy. The first is action; are the organization’s actions congruent with social values? The second is presentation; do the activities of the organization appear to be congruent with social values? Organizations seek to ensure that they act or appear to act within the norms of the societies in which they operate. Thus, it is possible for organizations to attempt to attain legitimacy by appearing to be doing the right things when this appearance may have little connection with a company’s actual performance (Buhr, 1998).

Since legitimacy is granted by society and its ever changing expectations, it is very possible for an organization to lose its legitimacy even if it has not changed its operations that were previously seen as legitimate. Legitimacy is granted and controlled by people outside the organization and so it is necessary for the organization to communicate
its activities to the public. Since society’s expectations change so often it is important for the organization to make disclosures to show that it is also changing. The annual report is the most commonly used tool for organizations to communicate this change, and it is seen as an important document for an organization looking to shape its own “social imagery” (Deegan et al., 2002). Deegan, Rankin, and Tobin have also provided evidence in their research that suggests managers disclose information to legitimize their organization’s place in society. The authors have also linked legitimizing disclosures to corporate survival.

The ways in which a company chooses to gain legitimacy will differ depending on whether the organization is trying to gain, maintain, defend, repair, or extend its level of legitimacy (O’Donovan, 2002). The spectrum ranges from maintaining the status quo to going beyond the requirements of the law to taking an industry leadership role.

Stakeholder Theory

An organization may adopt an ethical code of conduct to satisfy the stakeholders. Stakeholder theory suggests that organizations are not only responsible to shareholders, but also that they are responsible to all individuals, group, etc. that have a stake in a particular organization (Jennings, 2003). While this viewpoint is generally more favorable than the stockholder theory, it lacks a solid framework in any schools of thought. The stakeholder theory is not well-grounded and should be regarded as an open theory. Even so, adopting a code of ethics can reaffirm an organization’s acknowledgment of the stakeholder. This acknowledgment is based on Argandoña’s concept of the common good. This concept states:

The theory of the common good is based on the classic concept of ‘good’: the company does ‘good’ to many people, to some by obligation and to others by more or less involuntarily. And it must do good to certain groups by virtue of its obligation to contribute to the common good, which goes from the common good of the company itself to that of the local community, the country and all humankind, including future generations (Argandoña, 1998).

It is apparent that the theory of common good holds a strong foundation in stakeholder theory. Through this concept we recognize stakeholders as those having some form of interest in the company or those that will be affected by the company’s actions. There are different levels of stakeholder theory, ranging from passive compliance to active involvement in society for the public good (Argandoña, 1998). The walls of the stakeholder paradigm are not impervious. This theory may never mature into a fixed theory, but it may be better off as an open theory, ever changing to meet the changing role of ethics.

Stakeholder theory is an outline commonly used for business ethics. Traditional theories state that the primary function of an organization is to maximize shareholder returns. In contrast, stakeholder theory states that the organization needs to consider the interests of any group or individual that affects or is affected by the actions of the organization.

Commentators of stakeholder theory distinguish between primary and secondary stakeholders. According to Carroll, primary stakeholders are those who have a formal, official, or contractual relationship, and all others are classified as secondary stakeholders (Chapple, Crane and Matten, 2003). Others consider stakeholder groups to be equally worthy. Therefore, if stakeholders are all equally deserving and shareholders have no primacy over local community groups, the firm’s survival is at risk (Gibson, 2000). Gibson suggests that an organization has primary duties and obligations to certain groups to which something is owed. Additionally, stakeholder theory helps identify groups to which an organization has responsibilities (Chapple et al, 2003).

Writers have recognized that stakeholders place certain demands on an organization. The organization, in turn, must respond to these demands in order to maintain an environment in which they can operate. By strategically investing in stakeholders’ demands, organizations gain a competitive advantage by avoiding confrontation costs (Brown, Janney, Muralidhar, Paul and Ruf, 2001).

In contrast, other commentators have asserted that organizations should look after all stakeholders even though it is not profitable. This is more of a deontological approach in which organizations have a moral obligation to all of its stakeholders regardless of benefits received. This approach holds that, “You should act as you would have others do, and behave as if you could be in the shoes of the other party” (Gibson, 2000).

Dillard and Yuthas assert that in order to achieve responsible ethical behavior, an organization must use the application of stakeholder theory in conjunction with structuration theory. Structuration theory is used as a framework for exploring the forces that influence, and the changes that must precede, the development and implementation of ethical decision processes (Dillard and Yuthas, 2002).

The stakeholder theory holds that management’s fundamental obligation is to ensure its survival by balancing the conflicting claims of multiple stakeholders. Management must give consideration to the interests of all
stakeholders and they must manage the business to find the optimal balance among these interests when theses interests are conflicting. Hasnas states “this implies that there will be times when management is obligated to at least partially sacrifice the interests of the stockholders to those of other stakeholders. Hence, the stakeholder theory does imply that businesses have true social responsibilities” (2002).

Corporations are created by society and are therefore dependent upon society for its continuance. This creates a social contract where businesses are not only concerned about making profits, but they also have an obligation to act in a socially responsible manner. This obligation is the basis of a social contract. The idea of a social contract plays a large part in theories such as stakeholder theory, legitimacy theory, and stockholder theory. O’Donovan argues that the distinction between these theories is often blurred and a large amount of overlap appears. The main distinction between them is the viewpoint from which they are observed (O’Donovan, 2002).

**Moral Roots**

Concern for ethics in organizations has been growing in past years and with this has come a growth in ethical training and educational courses that introduce the ethical decision-making process. However, there is surprisingly little empirical research directed towards testing these theories (May, Pauli, 2002)

A number of theoretical frameworks that attempt to explain and summarize the ethical decision-making process in organizations exist. Rest (1986) outlines four stages of his fundamental ethical decision-making process. These four stages include moral issue recognition or moral awareness, moral evaluation/judgment, moral intention, and moral behavior. The first stage is moral awareness and is defined as “a person’s recognition that his or her potential decision or action could affect the interests, welfare, or expectation of the self or others in a fashion that may conflict with one or more ethical standards” (Butterfield, Trevino, Weaver, 2000). In short, it is an individual’s ability in recognizing the moral nature of a situation. The second stage is making a moral judgment or deciding what is morally right in the situation. Hunt and Vitell (1986) suggest that individuals use both deontological and teleological evaluations to make their judgments. Deontological evaluations involve examining the rightness or wrongness of behaviors based on personal values or rules of behavior. Teleological evaluations involve an analysis of the desirability and probability of the situational consequences (May and Pauli, 2002). The third stage is establishing moral intent, which can be characterized as deciding to give priority to moral values or other values. Moral intent is thought to lead to actual moral behavior because intentions are usually the best predictors of an individual behavior. The fourth and last stage of the ethical decision making model is engaging in moral action, which is following through on moral intention with moral behavior (Butterfield et al., 2000; Jones, 1991; Rest, 1986).

Jones (1991) adapted Rest’s model to develop his issue contingent model that incorporates a multidimensional construct called moral intensity. Jones outlines six components of moral intensity, which include magnitude of consequences, social consensus, probability of effect, temporal immediacy, proximity, and concentration of effect. Moral intensity affects recognition by its impact on the individual’s recognition to the consequences of their decisions.

The first component of moral intensity is magnitude of consequences, which represents the harm or good that arises from a moral act. Social consensus, the second component, represents the degree of a society’s overall agreement that a moral action is good or evil. The third component, the probability of effect, represents the decision maker’s certainty that an action that is likely to be pursued will result in a predicted outcome. The fourth component, temporal immediacy, represents how fast the predicted consequences of an act will be recognized. Proximity, the fifth component, represents the decision maker’s perception of how close he or she is to those affected by the moral act. The sixth and final stage, concentration of effect, represents the distribution of the consequences of the action. Jones hypothesized that the components of moral intensity would directly affect each of the first three stages in the ethical decision-making model. May and Pauli’s research confirms this hypothesis (2002).

Ethical decision-making is often considered specific to each individual. Different individuals have different ideas of what ethical behavior constitutes, thus each individual has a different moral awareness. Little research has been done that considers society an ethical decision-maker in itself; rather past studies have focused on the individual as a decision-maker. However, Butterfield, Trevino, and Weaver (2000) suggest that moral awareness is more likely to be triggered when an individual perceives a social consensus within the organization or profession. Although previous writing suggests that the ethical decision-making process is an individual process, this research suggests that “in organizational contexts, it is very much a social process” (Butterfield et al. 2000). Perhaps this view can help explain the process that takes place in an organization that is undergoing moral confusion and the result is unethical business practices.
DISCUSSION

The theories previously discussed have interesting implications when contrasted with the ethics policies of various companies. When such a comparison is made it is possible to determine the approach an organization may have taken in developing a code of ethics. However, it must be noted that conclusions made about the motivations for the development of an organization’s code of ethics could misrepresent the organization’s original intentions.

We chose to study two technology and communication companies that have global markets but different countries of origin. The ethics policies of each company are compared and contrasted to determine the policy’s purpose and importance within its organizational boundaries. The companies we chose to study are Motorola, which originated and is headquartered in the United States, and Ericsson, which is headquartered in Sweden. Motorola and Ericsson are both affected by the Sarbanes-Oxley Act. Both of these companies had already previously implemented codes of ethics policies, but now must ensure that their policies comply with the legislature provisions of the Act.

These companies were chosen based on the fact that we had immediate access to Motorola managers. We then chose an international competitor based in another country for our comparison. When the companies were first chosen we did not have any preconceived notions or knowledge of their ethics policies. The only relevant information we were equipped with was general knowledge of the United States’ and Sweden’s business culture. Based on this knowledge we have developed the following hypotheses for the comparison of ethics policies. We hypothesize that Motorola will have a code of ethics developed to attain legitimacy, thus utilizing the legitimacy theory. This hypothesis is based on the generality that United States businesses operate through legal compliance. We also hypothesize that Ericsson will have a code of ethics developed for the well-being of all that are affected by its operations, thus utilizing the stakeholder theory. This hypothesis is based on the generality that Swedish businesses operate within an all encompassing human rights mindset. The ethics policies of Motorola and Ericsson will now be separately examined.

Profile of Motorola

Motorola, due to top executive deeply rooted beliefs, finds corporate ethics to be critically important. According to its website, Motorola’s first Code of Conduct was published in 1976. Improvements were made in 1993 with the final, current version published in 1999.

“We substantially revised the Code in 1999 to reflect the changed nature of our business—we were doing business globally and needed to ensure a user-friendly Code that applied around the world,” explains Janis Solarz, Ethics Program Manager in Motorola. The Code includes employees’ responsibilities to stakeholders, placing special responsibility on managers. It also describes the company’s standards involving conflict of interests.

While many companies probably have an ethics standard in place simply for outside appearance, Motorola stands strong in its commitment to ethics. In fact, in 2002, Business Ethics magazine created a list of the “100 Best Corporate Citizens,” and Motorola was ranked #6 (Palmer, 2003).

"Motorola has its ethics program in place primarily because it is consistent with the company’s beliefs,” says Bruce Ramo, vice-president of ethics at Motorola. “We have found it to be, over time, a competitive advantage because the ethics program helps to develop trust between Motorola and its many global constituencies. We strongly feel that financial performance and solid ethics are a business imperative at Motorola” (Palmer).

Motorola’s Code of Conduct corresponds closely to stakeholder theory. The company appears not to be following an ethics policy simply for their own good or the good of the stockholders, but instead, for the good of all people whom the company may affect.

Motorola functions on two basic principles: uncompromising integrity and constant respect for people. These two principles are defined in the Code as the company’s Key Beliefs, and each Motorolan (Motorola employee) is expected to abide by these beliefs. The Code of Conduct is a guide to employees that helps them to make ethical decisions and to live up to Motorola’s high ethical standards. The Code states that “failure to abide by this Code and the law will lead to disciplinary measures appropriate to the violation, up to and including dismissal.” (Motorola, 2003). It is obvious that ethical behavior is a core tenet of Motorola.

Each Motorolan is required to read and understand the Code of Conduct. The extensive Code goes into great detail about many possible situations, and the ethical conduct required. However, under the circumstance that an employee is unsure how to handle a situation, further elaboration is available.

The Motorola EthicsLine is a service to employees that offers information, advice, and suggestions. The EthicsLine can be reached by phone, mail, or e-mail, and confidentiality is guaranteed (Motorola, 2003). This inclusive approach to good ethics suggests that Motorola’s ethics program is an integral part of their business and they have taken a stakeholder approach to the development of their code.
Profile of Ericsson

Ericsson, as one of Motorola’s competitors, takes a different approach to ethics. The company’s Code of Conduct concentrates more on basic human rights, contrary to Motorola’s moralistic philosophy. It is somewhat ironic that the U.S. company is espousing a wider view of the world than the Swedish company, given the social welfare philosophy formulated by generations of Swedish governments and subscribed to by Swedish citizens. This is especially so as U.S. companies have generally lagged behind their European counterparts in recognizing membership of user groups beyond investors and creditors notwithstanding the FASB conceptual framework hierarchy of users.

We have not been able to ascertain when Ericsson’s Code of Conduct was formulated, or what changes it has gone through, due to the company’s failure to respond to multiple requests for more information.

Unlike Motorola, Ericsson’s Code of Conduct is directed toward its employees and subcontractors, which differs from stakeholder theory. The Code is used as an instrument to inform workers of the basic principles of ethics, and concentrates strictly on working conditions and the environment. It does not explicitly address anyone outside of the business.

Ericsson’s Code of Conduct seems to be driven by legal obligations and legal requirements, reiterating the laws of human rights without much further detail. The company requires fair and equal treatment of all people, and abides by wage and working hour laws. The issue of safety is also discussed, providing regulations in regards to exits, fire safety, and first aid. In addition, there are sections concerning workplace and housing conditions, as well as environmental issues and child labor. Without a doubt, the social welfare state of Sweden permeates Ericsson’s philosophy, as it seems to be dominated by human rights law.

Ericsson’s Code concentrates on the law, saying little about the actual behavior of employees. Unlike Motorola, whose Code focuses entirely on respect and integrity, Ericsson concentrates on safety, health, and fair treatment, all of which are viable and important issues (Ericsson, 2003).

We contend that Ericsson is likely seeking legitimacy of the cultural expectations of the country in question and the wider involvement of the Swedish social welfare state in meeting social responsibility. Also, the Roman law-based Swedish legal system leans heavily on statute for guidance, while case law plays a smaller role (Swedish Institute, 1999). In addition, the general management style in Sweden allows employees the freedom to make their own decisions and to solve problems without consulting their superiors (Smorgasbord, 2004). With this freedom, it is clear that managers have a high degree of trust in their employees to act in the best way possible, and may even question the need for a formal code of conduct. This background helps to explain the initial difference between the two companies and their respective codes of ethics.

However, due to the following event, Ericsson may wish to add further detail to their Code. In addition to being a leader in the mobile phone industry, Ericsson is also involved with the development of radar and missile guidance systems for the Swedish government. In 2002, two Ericsson employees, along with a former employee, were arrested for passing secret documents to the Russian government about this information (Crane, 2003). Clearly, Ericsson’s information security was threatened, and there was a breach of trust by its own employees. This leaves us pondering the permeation level of Ericsson’s enforced ethical expectations.

The following matrix in Table 1 draws upon key elements for codes of ethics as described by Navron in 2002, comparing the two companies being reviewed.
Table 1. Core Traits of Ethics Statements

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<td>Sustainable Development</td>
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(Adapted from Navron, 2002).

LEGEND:  
√ = present

While Motorola and Ericsson both have ethics policies in place, the focus point of each differs. Motorola focuses on moral principles, while Ericsson concentrates on human rights and safety. The original hypotheses have been determined false. Motorola takes more of a stakeholder approach while Ericsson takes more of a legitimacy approach. This implicates that these companies may be anomalies in their respective business environments. However, since the social contract theories, like stakeholder theory and legitimacy theory, overlap each other and share similar characteristics, it is difficult to conclude the exact approach taken to develop an entire code of ethics.

These two contrasting approaches to ethics undoubtedly lead to differences in each company’s approach to conducting business. These differences may be due to variations in the cultural expectations of each country or due to legislation of corporations in each business environment.

Like Motorola and Ericsson, many companies are becoming international entities and are currently experiencing a widening global market. This expansion must be accompanied by an awareness of international business ethics rather than a country-wide awareness, thus companies need to take a global perspective in the adoption of a code of ethics. If this is not the path that companies chose to take, they still must be aware of the differences in what is considered to be ethical business practices in other countries. An organization must adapt in situations when doing business in other environments. “When in Rome, do as the Romans do.”

CONCLUSIONS

Behaving in an ethical manner will often exceed the minimum requirements of the law. It is the application of moral standards to business decisions. According to Marianne Jennings, the author of Business Ethics, “moral standards are principles of personal behavior that are neither legislated nor changed by legislation” (2003). When legislation requires companies to have a code of ethics, do they instantly become moral entities in the community? It is not enough for a company to just have an ethical code of conduct. This code must be followed every day by not only top executives and management, but by all employees of the company.

If a company is listed and traded on the New York Stock Exchange or NASDAQ and does not have a code of ethics, legislation now requires them to disclose why a code does not exist. The market reaction to securities on issue of a company not having a code of ethics is likely to be harsh in the current business environment. The business community is currently questioning why and how companies make decisions. Certainly, disclosing that no code of ethics has been adopted could lead to grave consequences.

Our findings suggest that codes of ethics are developed not based on cultural perspectives, but for other organizational purposes. A limitation of this study is that we only studied two companies that happened to be somewhat of anomalies in their respective countries of origin. The two companies that were chosen proved to be inconsistent with the general business environment in which these companies reside. However, it is ascertained that to be successful, ethics must be engrained in the culture of the organization. Future research should focus on the study of companies affected by the Sarbanes-Oxley Act that have developed codes of ethics for the first time.
Future research should also look at the impact Sarbanes-Oxley and the new business environment has on organizations that refuse to develop a code of ethics.

Is it enough to just comply with Sarbanes-Oxley, or should companies actually embrace universal ethical behavior? Commissioner Roel C. Campos of the SEC thinks that it is not enough for reporting companies to simply have a code of ethics. He believes that CEOs and senior management of these companies should live and practice on a daily basis the principles contained in their codes of ethics and that ethical conduct will be the single most important contributor to a company’s future success (Campos, 2002).

Business ethics are the application of moral standards to business decisions. Moral standards may differ between individuals and societal expectations. Behaving morally and properly is not a new concept but an old philosophy hopefully being reborn. It is disheartening that a U.S. Act of Congress is needed to reaffirm the trust in the U.S. business environment. Regardless, an organization must adopt a code of ethics to at minimum attain legitimacy. However, to be successful, a company must not only gain legitimacy through their ethics code, but the code must be followed and engrained in the organization’s culture.

“Ethics are nothing but reverence for life. This is what gives me the fundamental principle of morality, namely, that good consists in maintaining, promoting, and enhancing life, and that destroying, injuring, and limiting life are evil.”

–Albert Schweitzer

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