# A Code of Ethics

# as an

# Organizational Management Tool

# and its Use in the Czech Republic

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# 1 Introduction

The demands of customers, business partners and wider society for companies and their employees to behave ethically have been increasing for a long time. This development has resulted in similar growing demands from representatives within organizations themselves. These demands are related to employee concerns about management style and workplace relationships.[1] Both these factors increase the importance of the ethical management of organizations and the role of codes of ethics as a tool for promoting their ethical conduct.

The aim of a code of ethics is to clearly define and openly declare, both to the outside world and within the company itself, the principles and the rules of ethical behaviour that govern an organization, its management, as well as its "ordinary" employees, in particular those that act on behalf of the organization and participate in its decision making.

The rules stated in a code of ethics do not only contain generally applicable ethical norms and practices, but also important principles of professional practice ("lege artis") that an organization adheres to or requires.[2] In a wider sense, a code of ethics can be perceived as one of the tools of company culture building, but also as one of the characteristic features of this culture, both inside as well as outside the company.

The importance of a code of ethics is therefore not only external or marketing oriented. The establishment of and adherence to the principles of ethical behaviour strengthens the professional identity of employees, eases the recruitment and retention of high-quality employees, who are usually more sensitive to adherence to ethical standards, and makes the work in an organization more pleasant and productive[3]. This is also in part due to the fact that the principles contained in a code of ethics not only contain the rules that an organization requires its employees to adhere to (and applies to their remuneration), but also the principles the company adheres to in dealing with them[4].

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[1] SOMERS, M.J., 2001. Ethical codes and organizational context: A study of the relationship between codes of conduct, employee behavior and organizational values. *Journal of Business Ethics* 30(2), pp. 185-195.

[2] EVROPSKÝ PARLAMENT, 2006. Směrnice Evropského parlamentu a Rady 2006/123/ES: ze dne 12. prosince 2006 o službách na vnitřním trhu. Štrasburk: Evropský parlament. (DIRECTIVE 2006/123/EC of the European Parliament and of the Council of 12 December 2006) on services in the internal market states, with regards to defining the basic legal framework for the establishment of a code of ethics, that: "It is necessary to provide that the Member States, in cooperation with the Commission, encourage interested parties to draw up codes of conduct at Community level, aimed, in particular, at promoting the quality of services and taking into account the specific nature of each profession."

[3] XIA, H.M., 2010. Theoretical Basis of Staff's Ethical Management and its Dual Effects. In: *Proceedings of the Conference on Web Based Business Management* [online], China, 47-50 [accessed: 2017-04-04]. ISBN 978-1-935068-18-1. Available from: http://file.scirp.org/pdf/18-1.2.3.pdf

[4] ADELSTEIN, J, CLEGG, S., 2016. Code of Ethics: A Stratified Vehicle for Compliance. Journal of Business Ethics [online]. Netherlands: Springer, Volume 138, pp. 53-66 [accessed: 2017-05-07]. ISSN 0167-4544. Available at: http://link.springer.com/article/10.1007/s10551-015-2581-9.

*Introduction*

The effectiveness of a code of ethics as a management tool for an organization´s external and internal relations is, however, not a matter of course. It is based on certain assumptions related to its content and the method behind its creation, use, application and enforcement. This not only includes its correct orientation and clear and unambiguous formulations, but also the tools by which the principles of the code are enforced within an organization.

The aim of this publication is to introduce, analyse and evaluate the main principles behind the creation, promotion and enforcement of a code of ethics within an organization. A partial aim is to determine how widespread this management tool is among Czech companies, including the differences in its application in various types of companies.

The method applied in the theoretical part of this publication (chapters 1-4) is based on a qualitative and comparative analysis of codes of ethics of domestic as well as foreign organizations.

Chapter one focuses on the importance of codes of ethics within the context of business ethics and ethical organizational management. It looks at the background, strengths and weaknesses, and use of codes of ethics as a basic organizational management tool, as well as the links between them and other related management tools, and the extent to which they can be developed and applied.

Chapter two contains a comparative analysis of the typical structure and contents of codes of ethics. Chapter three provides an insight into the enforcement of codes of ethics, including the practical tools for their implementation in companies. Chapter four contains a summary of the main results of the qualitative research conducted.

The theory covered in chapters three and four is drawn from both domestic and foreign specialized literature, including the latest monographs, papers from journals contained in renowned databases, and other literature sources, as well as the results of our own analyses, whereby the emphasis is placed on codes of ethics as a traditional and important tool of ethical organizational management. This publication is based on the premise that a code of ethics and the role it plays in an organization´s social responsibility may influence its performance and economic results[5]. It is also based on the premise that unethical behaviour, which not only damages the reputation and good name of a company, but also the everyday work ethic of a company´s employees, occurs less often in companies that have a code of ethics.[6] It is also based on similar empirical research, which identified and examined the main components of

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[5] KAPTEIN, M., 2015. The Effectiveness of Ethics Programs: The Role of Scope, Composition, and Sequence. *Journal of Business Ethics* [online]. Netherlands: Springer, Volume 132, 415-431[accessed: 2017-05-07]. ISSN 0167-4544. Available from: http://link.springer.com/article/10.1007/s10551-014-2296-3.
[6] McLEOD, M.S., PAYNE, G.T. and R. E. EVERT, 2016. Organizational Ethics Research: A Systematic Review of Methods and Analytical Techniques. *Journal of Business Ethics* [online]. Netherlands: Springer, Volume 134, 429-443 [accessed: 2017-05-07]. ISSN 0167-4544.
Available from: http://link.springer.com/article/10.1007/s10551-014-2436-9.

codes of ethics of organizations.[7] The results showed that an indirect relationship exists between the number of ethical components that an organization has integrated into its code of ethics and the frequency of the observed unethical behaviour.

Works that deal with the ethical management tools of organizations, which are closely related to a code of ethics or build on it, and therefore support the implementation of a code of ethics and adherence to its rules, also form an important source of information for this monograph.

As Ho and Oladinrin[8], and Kaptein[9] show, a code of ethics is a basic element of the ethical infrastructure of an organization. Its acceptance covers the application of formal documents, in which the explicit declaration of the values that should steer the behaviour of employees and managers and support good practices and indicators related to the core of the organization, can be found. From the internal viewpoint of an organization a code of ethics confirms the values and the criteria of the decision making process, which define the company culture itself and formalize the behaviour expected from employees. From the external viewpoint, its function is based on maintaining the good reputation of a company. For numerous organizations a code of ethics is not only the beginning, but also the end of simple declarations of good being sufficient reflections of its social responsibility. Such organizations forget that a code of ethics is just the first step, not the last or the sole step in the generation of confidence. As García-Marza[10], Gupta, Briscoe and Hambrik[11] or Munzarova, Lostakova, Vavra et al.[12] show, the presence of a code of ethics is not sufficient, and that for a code of ethics to be applied effectively, it must contain tools that ensure the measurability of the adherence thereto, including the establishment of ethics committees and ethics hotlines. The best order for the implementation of the components of an ethics programme is as follows: 1) introduce code of ethics; 2) ethics training and communication; 3) responsibility policy; 4) monitoring and au-

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[7] GARCÍA-MARZA, D., 2017. From Ethical Codes to Ethical Auditing: An Ethical Infrastructure for Social Responsibility Communication. *Profesional de la información* [online]. Barcelona: EPI, Volume 26, 268-276 [accessed: 2017-05-07]. ISSN 1386-6710.
Available from: URL http://www.elprofesionaldelainformacion.com/contenidos/2017/mar/13.pdf.

[8] HO, C.M.F. and O.T. OLADINRIN, 2016. Evaluation of ethical codes implementation - a fuzzy approach. *Facilities* [online]. England: Emerald Group Publishing Ltd, Volume 34, 924-955 [accessed: 2017-05-07]. ISSN 0263-2772. Available from: http://www.emeraldinsight.com/doi/abs/10.1108/F-04-2015-0015.

[9] KAPTEIN, M., 2015. The Effectiveness of Ethics Programs: The Role of Scope, Composition, and Sequence. *Journal of Business Ethics* [online]. Netherlands: Springer, Volume 132, 415-431 [accessed: 2017-05-07]. ISSN 0167-4544. Available from: http://link.springer.com/article/10.1007/s10551-014-2296-3.

[10] GARCÍA-MARZA, D., 2017. From Ethical Codes to Ethical Auditing: An Ethical Infrastructure for Social Responsibility Communication. *Profesional de la información* [online]. Barcelona: EPI, Volume 26, 268-276 [accessed: 2017-05-07]. ISSN 1386-6710.
Available from: URL http://www.elprofesionaldelainformacion.com/contenidos/2017/mar/13.pdf.

[11] GUPTA, A., BRISCOE, F. and D.C. HAMBRICK, 2017. Red, blue, and purple firms: Organizational political ideology and corporate social responsibility. *Strategic Management Journal* [online]. USA: Willey, Volume 38, 1018-1040 [accessed: 2017-05-07]. ISSN 0143-2095.
Available from: http://onlinelibrary.wiley.com/doi/10.1002/smj.2550/abstract.

[12] MUNZAROVA, S., LOSTAKOVA, H., VAVRA, J., et al., 2016. Code of Ethics in the Reporting of Corporate Social Responsibility Activities, the Evidence from Czech Chemical Companies. In: *SGEM 2016, BK 2: Political sciences, law, finance, economics and tourism conference proceedings, Volume III* [online]. Bulgaria: TECHNOLOGY LTD, 2016, 761-768 [accessed: 2017-05-07]. ISBN 978-619-7105-74-2. Available from: http://apps.webofknowledge.com.ezproxy.techlib.cz/full_record.do?product=WOS&search_mode=GeneralSearch&qid=2&SID=4COrkewGwNJeCwAe7u4&page=4&doc=33&cacheurlFromRightClick=no.

dit; 5) research and improvement policy; followed by an 6) ethics officer; 7) ethics report; and 8) motivation policy[13].

The idea that the different elements which form the ethical infrastructure should be interconnected into one system, and that compliance with such a system requires an ethics audit to verify the acceptance of the ethical commitment, is the main benefit of this concept. This is linked to the fact highlighted in several recent publications based on empirical analyses conducted by McLeod, Payne and Evert[14] or Ruiz-Lozano, De Los Rios Brjillos and Lara[15], that the existence of a code of ethics or a declaration of social responsibility is not sufficient, but can serve as a cloak for the unfair practices of an organization.

The aforementioned components and the institutions that support the ethical infrastructure of an organization, strengthen transparency during the creation and implementation of a code of ethics by providing room for the participation of and dialogue between involved groups inside and outside the organization. They proffer advice with regards to matters of interpretation and the application of a code of ethics, handle information, proposals and complaints made through the ethics hotline, as well as support the raising of awareness of the ethics programme and adherence to it among employees and managers. The communication with employees and extended partners of an organization should not actually be limited to the reporting of unfair practices[16].

The credibility of these institutions however also depends on whether their members are able to inspire confidence. This is why information channels for all those who want to participate in ethics discussions, form an important part of ethical management[17]. In relation to these, as well as other sources, this publication deals with specific personnel management and organizational management tools that contribute to the effective implementation of ethical principles and adherence to them.

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[13] GARCÍA-MARZA, D., 2017. From Ethical Codes to Ethical Auditing: An Ethical Infrastructure for Social Responsibility Communication. *Profesional de la información* [online]. Barcelona: EPI, Volume 26, 268-276 [accessed: 2017-05-07]. ISSN 1386-6710.
Available from: URL http://www.elprofesionaldelainformacion.com/contenidos/2017/mar/13.pdf.
[14] McLEOD, M.S., PAYNE, G.T. and R.E. EVERT, 2016. Organizational Ethics Research: A Systematic Review of Methods and Analytical Techniques. *Journal of Business Ethics* [online]. Netherlands: Springer, Volume 134, 429-443 [accessed: 2017-05-07]. ISSN 0167-4544.
Available from: http://link.springer.com/article/10.1007/s10551-014-2436-9.
[15] RUIZ-LOZANO, M., DE LOS RIOS BERJILLOS, A. and S. MILLAN LARA, 2016. Are the ethical codes a management tool of social responsibility? An exploratory study in Andalusia. *Intangible Capital* [online]. Spain: Intangible Capitals, **12**(2), 462-486 [accessed: 2017-05-07].
Available from: http://www.intangiblecapital.org/index.php/ic/article/view/702.
[16] GARCÍA-MARZA, D., 2017. From Ethical Codes to Ethical Auditing: An Ethical Infrastructure for Social Responsibility Communication. *Profesional de la información* [online]. Barcelona: EPI, Volume 26, 268-276 [accessed: 2017-05-07]. ISSN 1386-6710.
Available from: URL http://www.elprofesionaldelainformacion.com/contenidos/2017/mar/13.pdf.
[17] STATLER, M. and D. OLIVER, 2016. The Moral of the Story: Re-framing Ethical Codes of Conduct as Narrative Processes. *Journal of Business Ethics* [online]. Netherlands: Springer, **136**(1), 89-100 [accessed: 2017-05-07]. ISSN 0167-4544. Available from: http://link.springer.com/article/10.1007/s10551-014-2505-0.

Chapter five presents the results of the quantitative analysis of data collated from empirical research conducted in the form of a questionnaire survey among companies of different sizes and from different industrial sectors in the Czech Republic. In addition to focusing on the application and orientation of codes of ethics in Czech companies, the research also focuses on analysing the statistical relations between the prevalence of a code of ethics and company size and its market activities in terms of the area in which it operates. One of the main goals of this part of the publication was to determine whether the presence of a code of ethics has an influence on the economic results of a company, as well as to examine and determine the main ways in which codes of ethics are implemented and applied in Czech companies.

Chapter six summarises the main results of the quantitative research.