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National Differences in Stakeholder Pressure to Adopt Codes of Ethics: A Four-Country Study

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Abstract

Academic research related to the perceived value of ethics codes in different national contexts has been limited despite burgeoning interest by managers, government officials and members of international nonprofit organizations. The purpose of this study is to assess the relationship between promoting a positive external firm image and stakeholder pressure to adopt codes of ethics. Moreover, we assess the extent to which market and non-market stakeholder pressure varies across national borders. A survey instrument developed in the United States is adapted to a cross-national setting and hypotheses related to codes of ethics are tested. Empirical results based on 540 respondents from four nations, Peru, China, the United States and Canada, support that national differences exist with respect to perceptions of ethics codes. A significant relationship between creating an external image and perceived pressure from stakeholders is also identified. Study limitations, managerial implications, and promising future research directions are also discussed.

JEL Classifications: F53, O20

Keywords: ethics codes, stakeholder theory, cross-cultural management

1. Introduction

The level of pressure that has been placed on top management team members, by both internal and external stakeholders, to adopt formal codes of ethics has escalated in recent years due to a wave of corporate scandals followed by significant legislation such as the Sarbanes-Oxley Act in the United States. From an international perspective, stakeholder pressure related to ethics codes tends to vary due to differences in legal and cultural environments, as well as different moral perceptions of what constitutes questionable behavior in the workplace (Jones, Felps, & Bigley, 2007; Robertson & Fadil, 1999; Saheed, 2013; Weaver, 1993). A primary challenge related to corporate governance is the creation of a corporate culture that fosters moral behavior while condoning impropriety (Stevens, Steensma, Harrison, & Cochran, 2005).This challenge is consistent with the fundamental purpose of codes of ethics. Moreover, in a multinational setting the level of complexity related to developing a feasible working code of ethics is considerably higher. As multinational firms seek to enter new foreign markets to manufacture and sell their products, the attainment of an understanding of the unique differences that exist related to perceptions of codes of ethics and the varying level of influence that certain stakeholders possess will become increasingly important.

Globalization has led many managers to confront ethical perceptions and beliefs that are inconsistent with their own moral codes (Velasquez, 2000). As such, a number of top management team members have decided to create and utilize formal codes of ethical conduct to help facilitate burgeoning moral standards in the workplace (Carroll & Buchholtz, 2003). Although national differences have been identified in phenomena such as perceptions of power, concern for time, ability to cope with uncertainty, regard for material goods, display of emotions, change, and group orientation, little has been done to empirically examine differences related to codes of ethics across borders (Geletkanycz, 1997; Hofstede & Bond, 1984; Robertson & Crittenden, 2003; Trompenaars, 1994). Moreover, scant information is available related to the role that codes of ethics play in different national settings. For example, in the United States approximately 78 percent of large firms have adopted formal codes of ethics yet the extent to which firms in other nations have followed suit is unclear. As more firms engage in the global economy information that helps facilitate the development of policies related to employee behavior will be more sought after by conscientious managers.

Our paper helps ameliorate this void in the literature. To better ground our study and research design we have elected to employ stakeholder theory (Freeman, 1984; Husted, 2001; Jones, 1995) and our research design is an extension of that used by Stevens *et al*. (2005) in their analysis of perceptions of ethics codes in the United States. We add value not only by extending prior work to the international level of analysis but also by developing new hypotheses that test constructs in a more refined fashion.

The purpose of this study is therefore twofold: to assess the relationship between promoting a positive external image and stakeholder pressure to adopt codes of ethics; and to assess the extent to which stakeholder pressure varies across national borders. To test our hypotheses we sample managers from four nations with varying backgrounds and different cultural inclinations: Peru, China, Canada and the United States. Two of the nations (Peru and China) lean heavily toward collectivism while two (Canada and the United States) have been found to be more individualistic in nature (Hofstede, 1997; Trompenaars, 1994).

This paper is organized as follows. An analysis of the theoretical foundation for the study is presented next. This is followed by the presentation of specific research hypotheses and an overview of our methodology. The results are then presented and evaluated, and the paper concludes with a discussion of managerial and research implications, limitations, and future research directions.

2. Literature Review

The study of codes of ethics has been closely linked to both ethical decision-making theory and stakeholder theory (Jones *et al*., 2007; Stevens *et al*., 2005). Although significant progress has been made toward the goal of attaining a deeper understanding of the ethical decision-making process, research related to policy implications at the international level has been limited (Jones *et al*., 2007, Cullen, Parboteeah, & Hoegl, 2004, Hosmer, 2000). Business ethics scholars have examined a multitude of influential factors and theories including, but not limited to individual values, moral intensity, situational factors, moral philosophies, cultural values, political inclination and economic variables (Fritzsche & Becker, 1984; Jones, 1991; Ralston, Holt, Terpstra, & Yu, 1997; Robertson, Crittenden, Brady, & Hoffman, 2002). Stakeholder theory has been employed in many studies within the domain of business ethics and is appropriate for the current research design because we are also attempting to describe, "what managers actually do with respect to stakeholder relationships, what would happen if managers adhered to stakeholder management principles, and what managers should do vis-à-vis dealing with firm stakeholders" (Jones, 1995, p.406). Our focus on a specific policy mechanism, the ethics code, and multiple nations, adds to the literature through our unique and integrated approach.

Stakeholder theory focuses on questions such as to whom does a firm's managers have obligations, and why do they have these obligations? (Phillips, 2003). Thus the focus of stakeholder theory is on the relationship between management and internal and external firm stakeholders, and ultimately how that relationship affects firm performance (Jones, 1995). Researchers have connected stakeholder theory to myriad organizational phenomena and studies have examined the relationship between stakeholders and various ethics constructs (i.e. Donaldson & Preston, 1995; Evan & Freeman, 1993; Husted, 2001). With respect to codes of ethics stakeholders such as investors, debtors, consumers, and the local community all have a keen interest in the moral decisions made by management that will affect the firm's products, competitive position, reputation and long-term viability. The level and scope of stakeholder interest in different nations is affected by political views, governmental regulations and cultural perceptions of the stakeholder relationship. For example, perceptions of hierarchy and power (i.e. heightened respect for internal and external top management team members in Japan) tend to vary across national lines (Hofstede, 1997; Jones, 1995) and impact the principal-agent relationship that drives stakeholder theory.

Not all stakeholders are the same in the moral conscience of managers. And due to differences in national regulatory environments certain stakeholder groups may have a higher degree of influence in one country compared to another (Roome & Wijen, 2005). Many scholars of stakeholder theory split stakeholders into two groups: market and non-market stakeholders (Cummings & Doh, 2000; Stevens *et al*., 2005). Market stakeholders tend to have a more direct impact on a firm and include such groups as suppliers, customers, financial institutions, shareholders, direct competitors and employees. Due to the close relationships that most market stakeholders maintain with firm management their level of influence has been traditionally high relative to typical non-market stakeholders. As a result, market stakeholders can exert pressure, when deemed necessary, on firm management to comply with certain demands, such as adopting an ethics code.

Non-market stakeholders operate on the periphery of firms and have been historically considered to have less of an economic relationship with management (Cummings & Doh, 2000; Stevens *et al*., 2005). Organizations that fall into the non-market stakeholder category are regulatory in nature and include local and federal governments, special interest groups, legal systems and nongovernmental organizations. Non-market stakeholders place more emphasis on firm activities that do not create economic value and therefore tend to monitor and assess activities that are more inclined to promote social good. Indeed, non-market stakeholders see firms as social systems "that need to perform acceptably by societal standards" and firm performance is assessed not only by financial measures but also by constructs such as corporate social responsibility (Baron, 1995; Stevens *et al*., 2005). In turn, it appears logical that firms would be deeply concerned about the external image that is projected to these governmental and industry watchdogs.

In the Stevens *et al*. (2005, p.184) study of stakeholder pressure to adopt codes of ethics the following hypothesis was tested and supported *"Hypothesis 2: Pressure from market stakeholders will have a stronger influence than pressure from non-market stakeholders on financial executives' use of their firms' ethics codes in strategic decision-making."* We go a step further than Stevens *et al*. (2005) through our focus on the relationship between promotion of a positive external image and the pressure felt by managers from market and non-market stakeholders to adopt an ethics code. Although non-market stakeholders may lack *direct* economic power over firms, when focusing on the potential damage that non-market stakeholders can do to a firm's reputation and image we believe that the *indirect* economic consequences can be equally as grave and devastating when compared to market stakeholders. Indeed recent slides in sales by Wal-Mart, Nike and Mattel, as a result of ethical lapses, followed reputation damage led by non-market stakeholders such as governmental and consumer advocacy groups.

From a cross-national perspective is necessary to integrate stakeholder theory with a culture-based theory. The impact of culture on ethical decision-making has been examined both conceptually and empirically by numerous scholars in recent years (Husted, 2001; Spicer, Dunfee, & Bailey, 2004; Vitell, Nwachukwu, & Barnes, 1993; Wines & Napier, 1992). Culture has been referred to as a construct that is not static but rather an ongoing evolutionary process that involves changes in the priorities of values at both individual and societal levels (Triandis, 1995). As a culture changes and evolves, the moral worldview of the members of that culture will likely face a transformation as well. The cultural dimension of individualism vs. collectivism has been one of the most researched and debated constructs in the cross-cultural management literature (Hofstede, 1997; Ralston *et al*., 1997; Schwartz, 1999; Triandis, 1995). Individualism emphasizes the values of independence and self-sufficiency in meeting one's personal needs, interests, and goals, while collectivism emphasizes social harmony, social norms, and duties that serve to meet the needs, interests, and goals of the wider collective rather than those of the individual (Egri & Ralston, 2004; Leung & Bond, 1989; Triandis, 1995).

With respect to the four nations examined in this study the general consensus in the literature is that Peru and China tend to have collectivistic traits while Canada and the U.S. are more individualistic (Hofstede, 1997; Trompenaars, 1994). A deeper examination of the literature related to individualism and collectivism reveals a number of conceptual links to stakeholder theory. In a study of cognitive scripts in the U.S., Mexico, China, Japan and Chile, Mitchell, Smith, Seawright, and Morse (2000) found that individualism was positively related to one's ability and desire to carry out a goal. Collectivism was positively linked to the acceptability of *cooperative* strategies with other firms in a study of entrepreneurial attitudes by Steensma, Marino, and Weaver (2000) in seven countries (Australia, Finland, Greece, Indonesia, Mexico, Norway, and Sweden). While different scholars have employed a wide range of variables and methods, the general conclusion that managers from individualistic and collectivistic nations have different beliefs when faced with similar scenarios has been a fairly strong pattern across studies.

Although the literature suggests significant differences in many aspects of culture there are some benefits related to the use of ethics codes, such as use in strategic decision-making and the impact on behavioral training, that have been either previously established or appear to have universal appeal (Stevens *et al*., 2005; Vitell *et al*., 1993; Weaver, 1993). Stakeholder theory supports the notion that when a particular stakeholder believes that a certain behavioral action will have positive benefits for the firm that individual will be more likely to engage in the behavior (Jones, 1995; Stevens *et al*., 2005). One specific benefit related to ethics codes that were examined in the Stevens *et al*. (2005) study was promotion of a positive external image. Despite the idea that individualism versus collectivism may impact stakeholder pressure, attitudes about a course of action, and perceived potential for successful action, the promotion of a positive external image is a phenomenon that is important to individualists, collectivists, market and non-market stakeholders. Based on this rationale we propose the following hypotheses:

> ***Hypothesis 1***. *Regardless of culture, the stronger the belief in promoting a firm's positive external image, the greater the perceived pressure by market stakeholders to adopt a code of ethics.*

> ***Hypothesis 2***. *Regardless of culture, the stronger the belief in promoting a firm's positive external image, the greater the perceived pressure by non-market stakeholders to adopt a code of ethics.*

Since the scope and level of influence of market and non-market stakeholders is likely to vary across national borders, due to factors such as differences in culture, form of government, and varying regulatory environments, it is expected that the pressure that these stakeholders exert on ethics code adoption will also vary. Moreover, due to variation in legal regulations (such as Sarbanes-Oxley and the Federal Sentencing Guidelines in the U.S.) it is expected that the pressure to adopt ethics codes will vary by country. Therefore,

> ***Hypothesis 3***. *Perceived pressure to adopt code of ethics from both market and non-market stakeholders will vary significantly across different national environments*.

3. Methodology

To test these hypotheses primary data were collected from respondents in four countries: Peru, China, the United States and Canada. In each country, surveys were distributed to respondents attending executive education or continuing education classes. One of the researchers met with respondents, each of which were employed by participating companies, and personally distributed the surveys. Respondents were told that their participation was voluntary and that their responses were completely anonymous. Respondents were allowed unlimited time to complete the surveys. When all respondents had finished filling out the surveys the on-site researcher then collected the complete set for the participating group. The initial instrument was developed in English based on the scales employed by Stevens *et al* (2005) in their telephone-based survey of financial executives in the United States. The survey was then translated into Spanish and Chinese by native speakers. To ensure appropriate translation, the surveys were then back-translated from Spanish and Chinese to English by a separate translator, and appropriate changes were then made before final distribution to the participants (Alreck & Settle, 1995).

Table 1. Summary of demographic data by country

Variable	Peru	U.S.A.	China	Canada
N	187	117	126	110
Age	29.1	33.3	36.7	24.2
Gender	61% male	44% male	58% male	39 % male
Tenure	5.28	5.36	11.8	1.4
Education: % w/ undergraduate degree % w/ graduate degree	 54% 24%	 70% 28%	 60% 40%	 72% 11%
Attended Ethics Seminar	41%	81%	50%	72%
Company with Code	54%	80%	33%	55%
% Domestic Firms	72%	87%	80%	79%

Respondents came from a number of firms in various industries. During the data collection phase, we targeted a minimum sample size of 60 respondents from each country, which is consistent with the sampling protocol set forth by Malhotra, Agarwal and Peterson (1996). We exceeded our data collection goal with surveys collected from a total of 540 respondents, though not all respondents returned surveys that were fully completed. By country, the number of respondents is as follows: Canada (110), China (126), Peru (187), and the US (117). In Table 1 a summary of demographic data by country is presented. The age of respondents averaged from 24.2 years in Canada to 36.7 years in

China. The average job tenure ranged from 1.4 years in Canada to 5.4 years in the U.S. The male-female split was close to fifty percent for the overall sample and a majority of the respondents in each nation had at least an undergraduate degree, many also possessed graduate degrees. In Peru and the U.S. a majority of the respondents worked for private firms while the opposite was true for the Canadian and Chinese respondents. More respondents in the U.S. (81%) and Canada (72%) had attended an ethics training seminar than in Peru (41%) and China (50%). Approximately 80% of U.S. respondents worked for firms with an ethics code, well above the percentages in Canada (55%), Peru (54%) and China (33%).

3.1 Measures

Our methods followed closely those used by Stevens *et al*. (2005). However, instead of employing the Gallup Organization as did Stevens and colleagues (2005), our international focus necessitated a paper-based survey methodology, as noted above. Although our measures were based on those developed by Stevens *et al*. (2005) we elected to parcel out certain items to facilitate constructs that fit our hypotheses.

Stakeholder pressure. Respondents were asked to assess how strong certain forces were in pressuring their firms to adopt codes of ethics. These items were broken into two categories, market stakeholders (six items, $\alpha = .74$) and non-market stakeholders (three items, $\alpha = .79$) which served as the dependent variables for Hypotheses 1 and 2. Market stakeholder items included one stem question, "In your opinion, how strong were the following forces in pressuring your firm to adopt a code of ethics?" Respondents then rated the following six stakeholders on a 7 point Likert scale (1 = no pressure, 7 = intense pressure): customers, suppliers, union groups, shareholders, banks and competitor code. The non-market stakeholder items were based on the same stem question and Likert scale and three groups were rated: regulatory agencies, court system and other government bodies. Although these measures are parallel to Stevens *et al.* (2005) and our coefficient alphas, reported above, are above an acceptable threshold we utilized these two variables as dependent rather than independent variables to reflect the directionality of our hypotheses.

Perceived benefits of ethics codes: Promoting a positive external image. We asked respondents to indicate how beneficial a code of ethics is in promoting a positive external image (four items, $\alpha = .62$). Each item was coded on a five-point scale and averaged to create a composite score which served as our primary independent variable. The stem question was “A primary reason for a firm to have an ethics code is” which was followed by four items. The four items were: (1) to protect the firm against legal action, (2) to project a good public image, (3) to discourage government scrutiny, and (4) to build trust and confidence with external groups and organizations.

Control variables. A variety of control variables were used in our regression models (see Table2). To be consistent with Stevens *et al*. (2005) individual-level controls included respondent age, gender, and tenure with their companies. In addition, we included two company level controls: firm size and whether the company was domestically owned or foreign owned. The demographic breakdown by country is discussed above and presented in Table 1.

4. Results

To test Hypothesis 1, that regardless of culture, the stronger the belief in promoting a firm’s positive external image the greater the perceived pressure by market stakeholders to adopt a code of ethics, we employed multiple regression. Table 2 shows the results of our two, two-stage models. Model A displays the results with market stakeholder pressure as the dependent variable, and in Model B non-market stakeholder pressure serves as the dependent variable (thus Model B tested Hypothesis 2). The independent variable of interest, promoting a positive external image, was entered in stage 2 of each model. Both models were significant (Model A, $F=3.73$, $p<.001$; Model B, $F=7.13$, $p<.001$) and in both models the independent variable was a significant positive predictor of stakeholder pressure. In Model A, the promoting positive image variable was significant at the .01 level (F=.13) while in Model B the same variable was significant at the .001 level (F=.21). The support of both hypotheses suggests that regardless of culture the desire to promote a positive external image leads to a higher perceived pressure to adopt ethics codes by both direct and indirect stakeholders. Interestingly the firm size variable was significantly related to non-market stakeholder pressure to adopt ethics codes which suggests that managers of larger firms are more in tune with the non-market organizations such as governmental agencies and consumer groups.

Table 2. Regression results

Dependent Variables: (A) Market Stakeholder Pressure and (B) Non-market stakeholder Pressure

Predictors and Controls	A Model 1	A Model 2	B Model 1	B Model 2
Control Variables	Beta	Beta		
Age	-.06	-.05	-.11	-.11
Gender	.06	.05	.04	.02
Tenure	-.06	-.05	.01	.05
Size	.03	.03	.24***	.26***
Domestic Company	.11*	.12*	-.01	.01
Independent Variable				
Promoting Positive Image		.13**		.21***
F (full model)	3.19**	3.73***	5.19***	7.13***
R^2	.04	.06	.08	.12
Adj. R^2	.03	.04	.06	.10
Change in R^2		.02		.04
n		380		323

*p<.05, **p<.01, ***p<.001

We used a one-way analysis of variance to test for differences across countries, which is our test of Hypothesis 3. Two models were run, one for market stakeholders and one for non-market stakeholders. Both models were significant (Model 1, F=6.88, p<.001; Model 2, F=3.59, p<.01). As shown in Table 3, there were significant differences across cultures with regard to perceived normative pressure from both market shareholders and non-market shareholders. Therefore, the results of our one-way analysis of variance provide support for Hypotheses 3. The results of our Scheffe' post-hoc tests indicated some interesting differences across countries. For example, respondents from the U.S.placed significantly less emphasis (than the other three nations) on market stakeholders such as customers, suppliers and union groups when faced with pressure to adopt ethics codes. Scheffe' tests related to the non-market stakeholders revealed that both the U.S. and Canada placed more weight than China on non-market influences such as regulatory agencies, court systems and other governmental bodies. The litigious nature of the U.S. likely factors into this paradigm. Overall, the respondents from collectivistic nations in our sample, Peru and China, did tend to group together, whereas the more individualistic Canadian and U.S. managers displayed comparable beliefs on most dimensions.

Table 3. ANOVA and post-hoc Scheffé tests of shareholder pressure to adopt codes of ethics

Variables	Source	Df	Sum of Squares	Mean Square	F	Post-hoc Scheffé Results
Normative Pressure: Market stakeholders	Between	3	14.30	4.77	6.88***	Peru>USA*** China >USA** Canada>USA*
	Within	353	244.73	.69		
	Total	356	259.03			
Cronbach's Alpha .735, 6 items						
Normative pressure: Nonmarket stakeholders	Between	3	13.08	4.36	3.59**	USA>China* Canada>China*
	Within	294	357.54	1.21		
	Total	297	370.62			
Cronbach's Alpha .791, 3 items						

*** p<.001, **p<.01, *p<.05

5. Discussion

The main objectives of this study were to assess variation in stakeholder pressure to adopt codes of ethics across different national environments and to assess the relationship between promoting a positive external image and stakeholder pressure. The extent to which managers from different nations perceive corporate codes of ethics as useful mechanisms in the battle against corporate corruption is important as more firms formalize operations in foreign nations. To test our hypotheses we developed a survey instrument, based on prior research, which we administered in four nations. The results of our empirical analyses reveal a number of interesting findings that can be viewed as potential research opportunities for scholars interested in the link between stakeholder pressure and ethics codes as well as variation in cultural perceptions of codes of ethics. Further, practitioners charged with managing their firm's moral positions in different national contexts may find pragmatic lessons in our research. Two results appear to stand out in this study. First, the finding that promoting a positive external image is a salient theme regardless of national environment or stakeholder influence reveals the inherent value of reputation management in the world of business ethics. The second striking finding is that managers from different nations vary in their perception of the pressure that stakeholders should place on the development of a firm's moral policies. When compared to colleagues from the other three nations the U.S. respondents appeared less concerned about market stakeholders and more concerned about regulatory bodies. This may be a byproduct of the hyper competitive environment in the U.S. combined with a cumbersome legal system.

One limitation of this study is that the generalizability of our results may be somewhat limited due to a sample of four nations. Indeed, in Latin America and Asia cultural values and laws vary substantially across borders and beliefs about ethics codes in China and Peru may not hold true in neighboring nations. With regard to the U.S. and Canadian samples, subcultural differences may play a role in the foundation beliefs about corporate ethics. Moreover, the extent to which individuals from different industries perceive ethics code benefits is unknown (Stevens *et al*., 2005). It is also possible that individuals from different functional areas may have different levels of commitment to business ethics policies and practices. Additionally, although our expectation that cultural differences in perceptions of ethics codes appear to exist the extent to which these results hold up in other world regions (such as Eastern Europe and Africa) is unclear and may be worthy of future research.

One criticism of survey research is common method variance, because the independent and dependent constructs are often measured entirely with self-reported data, as was the case here. One cannot dismiss Podsakoff and Organ's (1986) admonition to avoid measuring the independent and dependent variables using the same source, since there is a potential for questionable results. This makes it more difficult to find unique, significant regression coefficients (Florey & Harrison, 2000) and reduces the chance that common method variance had a major effect on the conclusions of this study. Nevertheless, one cannot absolutely rule out the possibility that respondents artificially answered in a consistent fashion, yielding possibly invalid results.

A number of managerial implications exist based on the findings of this study. First, top management must understand that the ethical climate of a multinational organization can be extremely fragile. There is no doubt that American, Canadian, Chinese, and Peruvian managers have many differences, yet they also embrace a number of similar values as well such as the desire to maximize shareholder's wealth and protect the reputation of their respective firms. One such value that emerged from our data is the almost universal desire to create a positive external image. Our results influence not only the content and delivery of an ethics code but also how codes are perceived by various stakeholders, both within and beyond the firm. Moreover, our findings have revealed patterns that could be helpful to managers in multinational firms that are in the process of developing universally applicable codes of ethics (Robertson & Fadil, 1999). For example, Chinese firms that operate in the U.S. may want to develop specific policies, such as a higher level of accounting transparency, that are rare in China but respected and valuable in the U.S. Further, actions and corrective steps taken by managers will likely become more important in establishing, maintaining, or destabilizing a multinational's ethical environment.

In sum, we believe that the results of this study have added breadth and depth to the body of knowledge related to cross-cultural ethics in general, and the multinational applicability of codes of ethics in particular. Further, this study has identified a number of salient future research endeavors for ethics scholars. Future researchers should examine perceptions of codes of ethics in Europe as well as other Asian and Latin American nations. A more in depth analysis of the drivers of attitudes about codes of ethics may also prove to be a rewarding avenue for research. Finally, external factors that play a causal role in the formation of attitudes about ethics codes, such as specific legal requirements and industry standards could also be examined in the future.

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