Ethics in Corporate Practice

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The institutionalization of ethics is for integrating ethics into practice. After introducing the concept of the institutionalizing of ethics, this article examines the definition and the international empirical data of the main ethics institutions. The analysis summarises the latest empirical research findings regarding institutionalising of ethics in Hungary as well.

The concept of ethics institutionalization

The institutionalization of ethics is for integrating ethics into practice. In special literature several approaches of that can be found.

⇨ It means making ethics formal and explicit in everyday business life by integrating ethics into everyday decision making, examining whether the decision is proper or improper (Purcell & Weber, 1979).

⇨ Andrew (1989) defined the institutionalization of ethics as an act which is necessary in order to provide corporate people with guideline.

⇨ According to Vitell and Hidalgo's view (2006) the institutionalization of ethics is an important way to control ethical problems arising at corporations.

⇨ The corporate institutionalization of ethics expresses the extent to which the corporation implicitly or explicitly integrated ethics into its decision making processes (Singhapakdi & Vitell, 2007).

The concept of ethics institutionalization is often associated with the concept of ethics program. Two types of ethics program can be distinguished: the implicit (hidden) and the explicit (open) ethics program. The implicit ethics program means that it appears not in a distinct way but it is implied in corporate culture, in the systems of performance assessment and incentives as well as in the management behaviour. The explicit ethics program means the overall formal rules, structures and activities (Weaver et al., 1999), the aim of which is to improve the ethical level at the corporation. The explicit ethics programs include ethics institutions. In case of some institutions the ethics program is quite extensive containing a lot of ethics institutions and hundreds of people deal with operating the program. In case of other institutions the extension of the program is minimal; it is exclusively restricted to drawing up a mission or establishing the code of ethics. According to Brenner (1992) the explicit ethics program contains the code of ethics, the ethics regulations, the ethics trainings and staff dealing with ethics. During the development of ethics program this list has been concretized and expanded. Among its items there are the ethics committee, the ethics representative, the ombudsman, the ethics communication, the ethics monitoring and the ethics audit. The chart (below) includes the definition of the most important factors in ethics institutionalization and the related international empirical data.

The concept of ethics institutions and its international extension

Ethics institution	Concept	International empirical data
Code of ethics	The code of ethics means putting norms, principles, behaviour rules into writing. It contributes to making it clear what is considered legitimate and responsible in the everyday business life of an organization.	86% of the 200 biggest companies in the world possessed the code of ethics in 2007 (KPMG, 2008). 35% of 80 studies concerning the efficiency of the code of ethics evaluated it positive namely found it efficient, according to 16% there is slight connection between the code and the ethical behaviour of the company and 33% found that there is no significant connection while 14% showed mixed results and there was only one case when the code had an opposite effect (Kaptein & Schwartz, 2008).
Ethics committee	The ethics committee implies a group of several members, which monitors the observance of ethics norms, conducts ethical investigation or initiates its conduct and the revision of ethics norms.	More than half of the 200 companies with the biggest revenue have got ethics committee holding meetings regularly discussing ethics complaints and questions. The employees can turn to these committees consisting of outside or inside experts with their dilemmas and suggestions. Several companies have one or more ethics representatives (they are also called ombudsman). The average number of ethics or compliance representatives is 0.5 FTE, which means 20 hours a week related to 1000 employees (KPMG, 2008). An American survey examining 94 companies showed that most of them (41%) employed a full time ethics and a compliance representative with 2-9 working hours but 35% had 1 or 0 ethics representative. 13% of them employed 10-24 people, 4 % employed 25-50 people and 8% employed more than 50 people. The majority (56%) of ethics and compliance representatives reported to the legal director, 20% of them reported directly to the general manager. The majority (68%) of the companies in the survey did not plan to change the number of ethics and compliance representatives in 2011 but 29% had the plan to increase this number (LRN, 2010).
Ethics representative	The ethics representative functions as an ethics coordinator and a controller, whose task can be among others developing the corporate culture, solving ethical problems.	
Ombudsman	It is an independent, neutral mediator between the management and those affected. This person usually has the role of solving debates.	
Ethics communication	Ethics communication is the means of spreading ethics norms accepted inside the company as well as making these norms realized inside and outside the company.	85% of the 200 biggest companies forwarded the code of ethics to more than 95% of the employees. The majority (66%) of companies inform newly employed people about the required ethics norms in the introductory program. 56% of the companies make the code of ethics involved in the labour contract and in case of more than half of the companies the awareness of the code of ethics must be signed (KPMG, 2008). An American survey examined 94 companies 84% of which communicated the ethics norms

		through the intranet, 72% started a mail campaign, 62% placed posters, 50% published them in newsletter, 38% informed employees at collective meeting, 23% issued prospectus, 13% launched reward program, 7% put the code on the intranet, 5% made regular puzzle games, in case of 2% the screensaver reminded of the ethics norms.
Ethics training	The aim of ethics training is to introduce ethics requirements, to confirm ethical awareness and presenting models of behaviour encouraging ethical decision making.	In more than 80% of the 200 biggest companies is applied ethics e-learning. In 74% of the companies at least the three-quarters of the management, in 56% the three-quarters of the employees participated in oral ethics training in the last three years. In case of those companies where the code of ethics was introduced more than a year before in 16% the management did not take part in any ethics training and in 27% there was no training for the employees (KPMG, 2008). According to an American survey examining 94 companies the ethics training was mostly online (73%). 12% of those questioned gave account of group training, 5% of experiential training such as workshop. The length of e-learning was mainly 2-3 hours (39%), at 24% of the companies it was a 1-hour online training, at 36% it took 4 or more than 4 hours. Most of the ethics training programs (89%) are standard programs concerning the whole company, 41% of those who answered gave account of programs focusing on functional areas, 44% reported on trainings related to special corporate roles (LRN, 2010).
The system of ethics report	Hotlines or emergency lines making it possible to report unethical behaviour and asking ethics related questions.	One survey ranked 150 transnational companies and the biggest 50 financial transnational companies on the basis of the list of UNCTAD from 2007. 72% of the non financial companies had ethics hotline. 58% of the financial companies had ethics hotline. In North America in case of almost all big companies (95%) hotline can be found while this number is only 57% in Europe. Companies in Europe prefer emergency line, in North America it is rather hotline (Calderón-Cuadraro et al., 2009).
Ethics controlling/ monitoring/ audit	The task of ethics controlling/monitoring is assessing regularly the company culture and the measures taken on the basis of which elaborating plans for the future.	In 44% of 200 companies with the biggest income the code of ethics is part of performance assessment and in 30% observing the code is a criterion of payment and incentive. According to 55% of the companies it is important to create regulations about sanctions after committing ethics offense. 88% of those having the code pay attention to observing the code, 66% regularly

		makes ethics accounts. In the process the inside audit section has an increasing role. 40% of those possessing the code make outside ethics accounts as well. (KPMG, 2008). According to the standard of the Social Accountability 8000 as many as 2150 certified institutions exist in 60 countries of the world concerning 67 industries and approximately 1.2 million employees (Social Accountability International, 2010).

The findings of the national empirical research

The national ethics institutionalization can be considered to be a process in relation to which some empirical examinations have been made recently. In the following parts the most important findings of them are summarized.

Ernst & Young surveys (2007, 2011)

The Ernst & Young made a survey about corruption risk management, focusing on corporate fraud and ethics hotlines (Ernst & Young, 2007). Their study (Ernst & Young, 2011) about the research findings was published in 2010 titled Integrity and Corruption Risks in the Hungarian Corporate Sector. In the survey of 2007, 59% of those Hungarians who answered said that the company they work for had a code of ethics and this rate was 72% in Central and Eastern Europe, 89% in Western Europe (Ernst & Young, 2007). These findings contradict the survey conducted in 2011 by the consulting company in the Hungarian corporate sector with 300 companies employing at least 50 people where 23% of the companies have code of ethics 11% of which the code is common with that of the parent company, 12% have their own code of ethics. The majority, 77% do not apply the code of ethics (Ernst & Young, 2011).

According to 69% of those who answered possessing the code of ethics each employee is familiar with the content of the code of ethics and 56% said that the code was useful for preventing fraud, abuse and corruption. According to 73% the employees observe the code. To the question about the reasons why the code is not observed the majority (50%) answered that it is because they do not find it important, according to 17% the reason is that they were not informed about the code (Ernst & Young, 2007).

20% of those Hungarians who answered in the survey in 2007 said that they would not report the fraud or corruption, this rate is bigger than on average in Central and Eastern Europe (15%) and in Western Europe (8%). The reason for not reporting is the fear of reprisal by the superior or the company itself (50%) or by the colleagues (5%), additional reason was that they do not find it important to report (45%). In the choice of notification channel there is great similarity between foreign and the Hungarian results. Most of those who answered said that they would report unethical acts first of all to their direct superior (67%), 7% would report it to a colleague, 3% would do that through the hotline (Ernst & Young, 2007).

According to the Ernst & Young survey in 2011, 11% of the Hungarian respondents uses hotline. This rate represents 33% of the companies which have code of ethics. According to the survey 36% of offences inside the company were revealed by notifications, 14% were revealed by inside inspection while 43% of the respondents said that there were no offences of ethics at their company. In case of 33% of the revealed offences of ethics there were no measures taken (Ernst & Young, 2011).

The survey of compliance value (KPMG, 2012)

The aim of the survey was to become familiar with the practice of compliance, its maturity level and the areas of improvement at top-level corporations operating in Hungary. TOP 200 companies and 20 financial companies got into the sample. The online questionnaire was filled in by 10% of the companies in the sample. According to the main finding of the survey the most essential aim of compliance is to protect and increase the corporate value as well as protecting the reputation of the company. 75% of those who answered have compliance strategy and annual compliance work schedule. In more than 50% of the companies there is an authorized organizational unit doing tasks related to compliance. Annually the companies typically spend 10-50 M Forints on compliance expenses. The biggest risk areas are transactions with a third client, government connections and briberies. In case of more than half of those companies who answered, the helpline services for reporting malpractice had already been introduced. The investigation on the basis of notifications is carried out by the head of compliance, 31% of the companies surveyed involve outside control in the investigation. Nearly a quarter of those who answered apply outside service for the investigation. The number of yearly notifications in 2009 was 45 on average while in 2010 on average 53 notifications were made. In case of more than half of the companies one of the main challenges for the future on the area of compliance is the verification of the field efficiency.

The qualitative survey of ethics institutions at big Hungarian companies (Szegedi, 2012a)

In 2012 a map of ethics institution system was made with interview method at 12 national big companies. The companies surveyed were Magyar Telekom Telecommunications Plc., MOL Hungarian Oil and Gas Plc., Tiszai Chemical Group Plc., BorsodChem Ltd., E. ON Hungária Ltd., OTP Bank Plc., CIB Bank Ltd., Denso Manufacturing Hungary Ltd., AUDI HUNGARY MOTOR Ltd., Metro Trade Ltd., Hungarian Post Office Ltd., Hungarian State Railways Ltd.

Among the companies surveyed the complete range of the code of ethics can be noticed. In creating the code of ethics the determining role of the corporate centre is specific.

Among the motive power and aims in establishing the code of ethics are the commitment towards doing fair business, introducing the accepted norms of the parent company, putting the norms in writing, developing the corporate culture, giving guidance to employees, revealing and reducing risks as well as meeting the stakeholders' requirements. In establishing the code of ethics the main participants

were Compliance, Law, HR, Procurement, Communication, Security, Sales, Sustainability, Inside control, Inside audit corporate units. Most of the companies regularly revise their code of ethics. More than half of the codes examined contain top-level managerial introduction. Among those affected at the company, the presence of colleagues, buyers, owners, business partners, suppliers, competitors and the government can be considered general in the code of ethics. The special responsibility of leaders in observing the ethics norms is a widely well-known and accepted fact. Half of the companies intend the code of ethics only for employees, while other companies expect the suppliers, the partners to be familiar with the code and observe its the norms.

Each employee receives the code of ethics in some form. In case of more than half of the companies the new employees are given the printed form of the code. In most of the companies the code of ethics is not a part of the labour contract. Only at a quarter of the organizations the management speak distinctively about observing the norms of ethics. In communication the intranet of the company has a significant role, but the majority of the companies communicate the norms of ethics through the intranet as well. In communication the inside company journal, management meetings, the presentation of cases in an anonym way and the accounts of company reports have a role.

In most of the organizations ethics trainings are arranged. The aims of ethics trainings are presenting and realizing the norms, introducing the way of putting them into practice and the motivation towards ethical behaviour. In each company conducting ethics training there is oral training and in case of more than two-thirds there is ethics e-learning. In one-third of the companies ethics trainings are carried out only for the new employees, in other firms ethics trainings are arranged every year or every third year. General ethics trainings are more widespread but special ones are also conducted. The general training method is the presentation which are attempted to be made in an interactive way in most cases. The case study method is present as well as role-plays, videos and interviews with the management.

More than half of the companies possess ethics committee. The ethics committee consists of 3-11 members. The members are mostly the legal head of the company, the head of HR Department, the head of Compliance, the head of inside controlling and the head of Security. The ethics committee generally holds meetings quarterly or ad hoc. In more than half of the companies the task of the ethics committee is to conduct investigations. The ethics committees make general standpoints and suggestions. The institution of ethics representative is not widespread (17%) in the companies surveyed but in more than half of them there is a compliance officer and in some of the cases there is an independent ombudsman. In half of the companies the compliance and ethics are connected to each other, ethics questions institutionally belong to the compliance corporate unit.

In case of most companies surveyed there is an ethics notification system where reports can be made and advice can be requested through post, e-mail, telephone and in person as well. Usually there is the chance to report anonymously. It is important to emphasize the fear of reprisal. Only in half of the companies it is compulsory to report the offence of ethics in others it is a possibility. Every year there are about 5-15 notifications. The most common topics of ethics notifications are harassment, incompatibility, detrimental discrimination, fraud, stealing and corruption. The process of notification is usually included in a separate notification code or the procedure / operation order. As many as 50-90% of the ethics notifications are investigated. The most often committed offences of ethics are harassment,

incompatibility, fraud, stealing and corruption. Investigations are conducted / directed by the ethics committee or the compliance organization. Each company sanctions ethics offences. The moral sanction has a great moral impact as well.

In case of more than half of the companies observing the code of ethics is involved in the performance assessment system. Quarterly or every year ethics reports are made, evaluate the tendency of ethics, give accounts to the top-level management. Most companies have no separate ethics budget.

Examining the effects of ethics institutionalization is considered to be premature by the companies questioned. According to more than half of the companies ethics institutionalization has positive effect as it encourages ethical behaviour with increasing ethical awareness. According to those who answered ethics institutionalization has a positive effect mainly on company culture, reputation and on reducing risks. In connection with the effects of ethics institutionalization on commitment, trust, economic aspects there were basically positive opinions but some critical remarks were also made.

Among the limits of ethics institutionalization cultural barriers are outstanding which exist on one hand between the corporate central office and the subsidiaries and on the other hand they arise from national features and rigid traditions. The ambiguous priorities or business aspects ranked before ethics point of view also mean barriers. Further problems are inadequate communication about ethics norms, about the significance of ethical behaviour which produce the effect of resistance of those involved such as the fact that legal condition is not in harmony with the effort of ethics institutionalization.

The information gained by asking 12 companies can not be considered to be representative, the aim of research was to map the given area. On the basis of the survey it can be stated that the national corporate ethics institutionalization has developed dynamically in the last 5 years. In the process of creating ethics corporate culture it has reached the level of commitment and formalization and beyond that some companies with several years of experience in operation in this area have reached the level of action and evaluation.

Content analysis of the code of ethics at big Hungarian companies (Szegedi, 2012b)

The aim of the survey was to compare the content of the codes of ethics in different big Hungarian companies. Among the 50 companies with the biggest income (*HVG*, 2011) those ones got into the sample which had an ethics document in Hungarian available on the internet. During the analysis the ethics documents of the following 14 companies were compared:

Mol Plc., Nokia Komárom Ltd., E.ON Natural Gas Trade Ltd., Magyar Telekom Plc., Tiszai Chemical Group Plc., TIGÁZ Tiszántúli Gas Supplier Ltd., Richter Gedeon Chemical Company Plc., Shell Hungary Trade Ltd., OMV Hungary Petroleum Ltd., Mol Energy Trade Ltd., Borsodchem Ltd., Metro Trade Ltd., Szerencsejáték (Lottery Company) Ltd., Telenor Magyarország (Telenor Hunagary) Plc. The surveyed sample can not be considered to be representative, the findings are relevant in specific condition, and generalization can not be made regarding every Hungarian company.

Several expressions appear in special literature and in corporate practice in terms of the code containing corporate ethical values and norms. Among those 14

companies surveyed in case of most of them (79%) the name of the document is the code of ethics, in some instances it is the code of behaviour (Nokia), code of operation (Magyar Telekom) as well as basic principles of business (Metro). There is considerable difference regarding the extent of the codes. The shortest one conists of 2 pages (Mol Energy Trade Ltd.), the longest one is 80 page long (Shell), on average it is 20 pages. 60 % of the codes surveyed explain the topics concerned in great details (MOL, EON Natural Gas Trade, Hungarian Telekom, TIGÁZ, Shell, OMV, Borsodchem, Szerencsejáték / Lottery Company).

Among the companies surveyed one of the most important goals of creating the code of ethics is to provide employees with a guideline helping them in everyday behaviour. This aim was emphasized by 93% of the companies except Mol Energy Trade Ltd., which did not mention the aim of the code. At 86% of the companies the code mentioned undertaking corporate responsibility beyond the traditional corporate approach. Among the companies surveyed only Richter and Telenor did not emphasize it in their code. According to 64% of the companies corporate responsibility and ethical behaviour are the condition of long term economic success and competition advantage (MOL, TVK, Nokia, EON Natural Gas Trade, Hungarian Telekom, TIGÁZ, OMV, Shell, Metro). 64% of the companies indicated company culture development as a goal, 57% indicated the protection of company reputation. In case of 30% confirming trust was a goal. Beyond responsibility in each of the codes surveyed honesty and respect appear as ethical value. Further values are cooperation (93%), openness (79%), transparency (71%), honesty (64%), trust (64%), fairness (57%), and equity (57%).

On the basis of the analysis the most common topics of the corporate codes of ethics surveyed are incompatibility (100%), gifts, entertainment (100%), discrimination / harassment (100%) and observing the law (100%). In most of the codes we can find the following topics: the use of company devices (86%), the protection of intellectual rights (86%), the protection of personal data (86%), health and safety at work (86%), the validity of the codes regarding everybody (86%), the sanction when breaching the code (86%) and the special responsibility of the management. Common topics are bribery and corruption (76%), not supporting political parties (76%), environmental protection (76%), fair competition (71%) as well as the obligation of notifying when breaching the code. In two-thirds of the codes we can find the regulation of the employee's political activity (64%), public declaration (64%), realistic data (64%), transparent and correct information service (64%), safe products and services (64%), the chance of anonymous notification (64%) and the protection of the notifier (64%). More than half of the codes examined contain the topics of insider trading (57%), basic human rights (57%), the connection with state officials (50%) and it can also be mentioned that in 57% of the codes there is top management introduction.

The survey pointed out that the Hungarian corporate codes are in accord with each other regarding the topics. Incompatibility, gifts and entertainment, discrimination / harassment as well as observing the law have significant role. It is thought-provoking that altogether 28% of the Hungarian TOP50 companies make their code of ethics public. From the international comparative data it can be concluded that the Hungarian corporate codes of ethics are under developed compared to the American practice.

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